



迈科管业控股有限公司

MAIKE TUBE INDUSTRY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1553



ANNUAL REPORT 2022



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DEFINITIONS

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

“Articles”	the articles of association of the Company, as amended from time to time
“ASP”	average selling price
“Audit Committee”	the Audit Committee of the Board
“Board”	the board of Directors
“BVI”	British Virgin Islands
“Chairman”	the chairman of the Board
“China” or “PRC”	the People’s Republic of China
“Controlling Shareholder(s)”	has the meaning ascribed to it in the Listing Rules
“Company”	Maike Tube Industry Holdings Limited, an exempted a 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
“Corporate Governance Code”	Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Director(s)”	Director(s) of the Company
“Delta Electric (Thailand)”	Delta Electric (Thailand) Company Limited, a company incorporated under the laws of Thailand on 13 January 2021 and an indirectly non wholly-owned subsidiary of our 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
“Guan Dao Investments”	Guan Dao Investments Limited, a company incorporated under the laws of the BVI with limited liability on 3 January 2019 and a direct wholly-owned subsidiary of our Company





DEFINITIONS

“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HVAC”	heating, ventilation and air conditioning
“Independent Third Party(ies)”	an individual or a company who is not connected with (within the meaning of the Listing Rules) any Directors, chief executive or substantial Shareholders of the Company or its subsidiaries or any of their respective associates
“Jinan Ma Steel”	Jinan Magang Steel Pipes Manufacturing Company* (濟南瑪鋼鋼管製造有限公司), a company established under the laws of the PRC as a limited liability company on 7 November 2001 and an indirect wholly-owned subsidiary of our Company
“Jinan Mech”	Jinan Mech Piping Technology Co., Ltd* (濟南邁科管道科技有限公司), a company established under the laws of the PRC as a joint stock company with limited liability company on 21 May 2013 and an indirect wholly-owned subsidiary of our Company
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	18 December 2019, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meide”	Meide Group Co., Ltd.* (玫德集團有限公司) (formerly known as Jinan Meide Foundry Co., Ltd* (濟南玫德鑄造有限公司)), a company established under the laws of the PRC as a limited liability company on 17 January 1992, and held as to 64.51% by Jinan Gong Chuang Meide Corporate Management Partnership (Limited Partnership)* (濟南共創玫德企業管理合夥企業(有限合夥)) and 35.49% by Ningbo Ming De Heng Sheng Investment Limited* (寧波明德恒生投資有限公司)
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Mr. Kong”	Mr. Kong Linglei (孔令磊), one of our Controlling Shareholders
“Nomination Committee”	the Nomination Committee of the Board
“Prospectus”	prospectus of the Company dated 29 November 2019
“Remuneration Committee”	the Remuneration Committee of the Board



DEFINITIONS

“RMB”	Renminbi Yuan, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shares”	ordinary shares of our Company with a nominal value of USD0.0001 each
“Share Option Scheme”	a share option scheme passed pursuant to a written resolution by the Shareholder on 19 November 2019
“Shareholder(s)”	holder(s) of the Share(s)
“SSAW steel pipe(s)”	spiral submerged arc welded steel pipes which formed by utilising submerged arc welding technology with spiral weld seam, i.e., pipes made from strips of hot rolled steel plates formed helically into cylinders and then welded as they are formed
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Chuang Xing De BVI”	Tong Chuang Xing De Limited, a company incorporated under the laws of the BVI with limited liability on 4 January 2019. Tong Chuang Xing De BVI is one of our substantial Shareholders
“Tube Industry Investments”	Tube Industry Investments Limited, a company incorporated under the laws of Hong Kong on 23 January 2019 and an indirectly wholly-owned subsidiary of our Company
“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 an indirectly wholly-owned subsidiary of our Company
“VND”	Vietnamese Dong, the lawful currency of Vietnam
“Ying Stone”	Ying Stone Holdings Limited, one of our Controlling Shareholders, a company incorporated under the laws of the BVI with limited liability on 8 January 2019, which is wholly-owned by Mr. Kong as his investment holding company

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

* for identification purposes only



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Guo Lei (Chairman and Chief Executive Officer) (Redesignated on 1 August 2022)

Mr. WANG Ning (Appointed on 1 August 2022)

Mr. Yang Shufeng

Mr. Xu Jianjun (Resigned on 1 April 2022)

Mr. Kong Linglei (Chairman) (Resigned on 1 August 2022)

Non-executive Director

Ms. Zhao Xuelian

Independent Non-executive Directors

Mr. Liu Fengyuan

Mr. Ding Xiaodong

Mr. Ma Changcheng (Resigned on 1 April 2023)

AUDIT COMMITTEE

Mr. Ding Xiaodong (Chairman)

Mr. Liu Fengyuan

Mr. Ma Changcheng (Resigned on 1 April 2023)

REMUNERATION COMMITTEE

Mr. Liu Fengyuan (Chairman)

Mr. Guo Lei (Appointed on 1 August 2022)

Mr. Kong Linglei (Resigned on 1 August 2022)

Mr. Ma Changcheng (Chairman) (Resigned on 1 April 2023)

NOMINATION COMMITTEE

Mr. Guo Lei (Chairman)

Mr. Liu Fengyuan

Mr. Kong Linglei (Chairman) (Resigned on 1 August 2022)

Mr. Ma Changcheng (Resigned on 1 April 2023)

COMPANY SECRETARY

Mr. Leung Wing Lun (HKICPA)

AUTHORISED REPRESENTATIVES (FOR THE PURPOSE OF THE LISTING RULES)

Mr. Guo Lei

Mr. Leung Wing Lun (HKICPA)

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1102,
11/F, Brill Plaza,
84 To Kwa Wan Road,
To Kwa Wan,
Kowloon,
Hong Kong

REGISTERED OFFICE

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

LEGAL ADVISOR AS TO HONG KONG LAW

Stevenson, Wong & Co.
39/F, Gloucester Tower,
The Landmark,
15 Queen's Road Central,
Hong Kong



CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
Registered Public Interest Entity Auditors
35th Floor, One Pacific Place
88 Queensway, Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Pingyin Branch
Bank of China Pingyin Branch
Bank of China (Hong Kong) Limited

STOCK CODE

1553

COMPANY WEBSITE

<http://www.mechpipingtech.com>





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Group and the Board of Directors of the Group, I am pleased to present to the Shareholders the audited annual results for the year ended 31 December 2022. During 2022, the Group and its employees managed to weather the storm and rise to the occasion by uniting together dauntlessly and persistently to expand its market and control its internal costs, with a focus on efficient operation, effective production, and high-quality development. In 2022, the Group recorded a turnover of approximately RMB2,107.3 million (2021: approximately RMB1,776.0 million), representing a year-on-year increase of approximately 18.7%. Our net profit for the year amounted to approximately RMB138.8 million (2021: approximately RMB115.3 million), representing a year-on-year increase of approximately 20.4%. Earnings per share attributable to ordinary equity holders of the parent company was approximately RMB0.322 (2021: approximately RMB0.267).

In 2022, we were determined to work our fingers to the bone with perseverance. With the resilience to bounce back from obstacles, the courage to forge ahead, and the realization of our important role, we were able to implement annual strategies and deploy production lines, reach the production capacity of new product lines, launch new products to the market, and make a larger breakthrough in new areas. Our production and sales volume of the spiral welded pipes product line increased by more than 50% year-on-year at a record high, our ERW steel pipes products achieved steady growth, our prefabricated products reached the expected goal of maintaining stable price and profitability, and our assembled prefabricated products were highly appreciated among customers.

In 2022, we weathered the storm with great faith in ourselves. We were awarded multiple honours such as the National Niche Little Giant, the National Green Design Products, and the National Intellectual Property Advantage Enterprise as a result of our complete implementation of the concepts of “concentric diversification” and “focusing on principal businesses”, our insistence on high-quality development and transformation into a smart company, and our perseverance for facilitating management transformation and technology enhancement. With this, we will be leading the Company into a new phase.

In 2022, we strived for self-improvement to step up our game. In response to the increasingly complex and severe external market, we had to be more dedicated to our work. We were committed to speeding up the digital transformation with a focus on developing major operating businesses, to prepare ourselves for every possibility. Following the “Go global” strategy, we sent 5 teams to visit 255 oversea customers for 693 days in total to explore opportunities for growth in results. The domestic and foreign sales departments collected sales leads amounting to 4,880 and converted them into valuable sales leads of 3,009 while inviting customers to visit 56 times, and acquiring 355 new customers. The Overseas Projects of Chinese Enterprises and the Long-distance Pipelines Project have made historical breakthroughs. Meanwhile, a continuously refined cost control model and promotion of digital applications increased efficiency by approximately RMB6.93 million, the implementation of production cost reduction amounted to approximately RMB19.88 million, and the enhancement of procurement increased efficiency by approximately RMB17 million, which promoted an extraordinary growth against the trend in the industry.



CHAIRMAN'S STATEMENT

In 2022, we were working together to create a win-win situation. We continued to fully implement our corporate culture and improve our employees' sense of achievement, happiness, and security. Despite the sporadic COVID-19 outbreaks in different regions in 2022, we were able to tackle the difficulties with scientific measures to ensure the health and safety of our employees and their families and the stability of production and operation of domestic and overseas enterprises. We were awarded the title of "Shandong Province Harmonious Labour Relations Building Demonstration Enterprise" by following the examples set by the Party, the League, labour union, and women's union, making efforts to protect labour rights and interests, and proactively taking social responsibility.

The achievement was attributed to the strong leadership and strategic deployment of the Board of Directors, the long-term and diligent efforts of the management team, and the corporate spirit of "focusing on customers, being committed to quality, facilitating development with innovation, and achieving mutual benefits with cooperation" of all employees. With wisdom and effort, we have made the impossible become possible and furthered it into reality, which laid a solid foundation for the successful completion of the 2022 targets.

While the spring begins with the sight of hope ahead, we united to bring out our strengths. In 2023, we will continue to focus on our customers and profitability, and put our heads together to ensure management enhancement, achieve economic and technical indicators breakthroughs, and increase our profitability. In 2023, we will strictly comply to the standards of safety, environmental protection, and energy consumption, and make every effort to build "Digital Maike" and "Intellectual Maike" which are innovative-driven, green, low-carbon, and intelligent-manufacturing.

The greats in history have always worked hard on the road to innovation. Today, Maike Tube has confidence in its strategies, procedures, and cultures, and the courage and strength to overcome different challenges without any fear. As the past and the future connect along with the coexistence of opportunities and challenges, we, standing at the starting point for new development, must work harder and smarter together as fighters with great ambition, to continue to the new chapter of Maike Tube's development in a new era.

ACKNOWLEDGMENT

On behalf of our Group, I would like to thank all employees for their diligent hard work and incredible innovation in the past year. Meanwhile, I am also grateful to all clients, suppliers and shareholders for their strong support in the Group's development. The Board is confident in the management team and their capabilities. We will maintain constant revolution and innovation in management to embrace the bright future.

Chairman

GUO Lei

Pingyin County, Jinan, Shandong Province, China

24 March 2023



DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Guo Lei (郭雷), aged 44, is the Chairman, an executive Director and the general manager of our Company. He joined our Group in October 2016 and was subsequently appointed as a director, general manager and legal representative of Jinan Mech and the chairman of the board of directors of Jinan Ma Steel in November 2016. He was appointed as an executive Director in May 2019. He is primarily responsible for the day-to-day operation and management of our Group.

Mr. Guo has over 20 years of experience in the pipe and foundry industries. Prior to joining our Group, from November 1998 to October 2016, he served various positions in Meide, and his last position was deputy general manager, where he was responsible for overseeing the business of the management department, innovation department and IT department.

Mr. Guo graduated from Shandong Province Mechanical Industrial School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a thermal treatment of metal diploma in July 1998.

Wang Ning (王寧), aged 46, is an executive Director of the Company. He is the chief of standard prefabricated pipe nipple products production of our Company. He joined our Group as a deputy factory manager for standard prefabricated pipe nipple products production and section chief of the production department of Jinan Mech in August 2018, where he was responsible for factory production and management. He then became a factory manager for standard prefabricated pipe nipple products and section chief of the production department in December 2018. He was appointed as our Group's chief of standard prefabricated pipe nipple production in May 2019. He is primarily responsible for production management.

Mr. Wang has over 20 years of experience in pipe and foundry industries. Prior to joining our Group, he was a planning worker at Meide from November 1999 to July 2018, and his last position at Meide was a section chief of the production department, where he was responsible for pipe manufacturing and production work.

Mr. Wang graduated from Shandong Province Gongye School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a diploma in casting in July 1999.





DIRECTORS AND SENIOR MANAGEMENT

Yang Shufeng (楊書峰), aged 51, is an executive Director. He joined Jinan Ma Steel since March 2002 and has been a sales manager since March 2008. He subsequently joined Jinan Mech in May 2013 and has been a deputy general manager since October 2015. He was appointed as an executive Director in May 2019. He is primarily responsible for overseeing sales and marketing team of our Group in the PRC.

Mr. Yang has over 10 years of experience in sales and marketing, pipe manufacturing and production management. Prior to joining our Group, he served at Meide as a marketing officer from May 1995 to March 2002.

Mr. Yang graduated from Shandong TV University (山東廣播電視大學), the PRC, with a bachelor's degree in marketing in July 1995.

NON-EXECUTIVE DIRECTORS

Zhao Xuelian (趙雪蓮), aged 44, a non-executive Director, has been appointed as a non-executive Director with effect from March 2020.

Ms. Zhao has over 20 years of experience in accounting and finance. Ms. Zhao has been working in Shandong Zhongqi Real Estate Development Company Limited* (山東中齊房地產開發有限公司) (“**Shandong Zhongqi**”), a company primarily engaged in the development of real estates in the PRC, since September 2000 and she is the financial controller of Shandong Zhongqi.

Ms. Zhao obtained her bachelor's degree in accounting from the Open University of China (國家開放大學) (previously known as China Central Radio and TV University (中央廣播電視大學)) in January 2008.





DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Fengyuan (劉鳳元), aged 52, was appointed as an independent non-executive Director on 19 November 2019. He is primarily responsible for supervising and providing independent judgement on the operation and management to our Board. He has over 10 years of experience in finance education. He has been a professor specialising in financial regulations and a doctoral adviser at the School of International Finance and Laws of the East China University of Political Science and Law (華東政法大學) since February 2006. He also serves as an independent director of various companies listed on other stock exchanges:

Company	Stock Exchange	Stock Code	Principal business in the PRC	Term of appointment
Ningbo Borine Electric Appliance Co., Ltd (寧波博菱電器股份有限公司)	National Equities Exchange and Quotations	873083	Manufacturing and distribution of electric appliances	August 2017 to present
Jingjin Environmental Protection Co Ltd (景津環保股份有限公司)	Shanghai Stock Exchange	603279	General contracting and operating service provider of environmental protection engineering	June 2016 to June 2021
Suzhou Kingswood Education Technology Co., Ltd. (蘇州科德教育科技股份有限公司) (formerly known as Suzhou Kingswood Printing Ink Co., Ltd (蘇州科斯伍德油墨股份有限公司))	Shenzhen Stock Exchange	300192	Manufacturing and sales of ink	September 2013 to October 2019
Shanghai Material Trading Co., Ltd (上海物資貿易股份有限公司)	Shanghai Stock Exchange	600822	Developing, manufacturing and sales of smart identification terminals and industry application software	October 2014 to June 2020

Mr. Liu graduated from Chongqing Normal University (重慶師範大學), the PRC, with a bachelor's degree in mathematics education in July 1994. He received his master's degree in science from Yunan University (雲南大學), the PRC, in July 1997 and obtained his doctoral degree in business administration (management) from Shanghai Jiao Tong University (上海交通大學), the PRC, in October 2005.



DIRECTORS AND SENIOR MANAGEMENT

Ding Xiaodong (丁曉東), aged 56, was appointed as an independent non-executive Director on 19 November 2019. He is primarily responsible for supervising and providing independent judgement on the operation and management to our Board. He has over 20 years of experience in accounting and finance education. He has been teaching at the Shandong University of Finance (山東財經學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) since June 1988, and his current position is an associate professor in accounting. He served/is currently serving as an independent director of various companies listed on other stock exchanges:

Company	Stock Exchange	Stock Code	Principal business in the PRC	Term of appointment
Ningbo Borine Electric Appliance Co., Ltd (寧波博菱電器股份有限公司)	National Equities Exchange and Quotations	873083	Manufacturing and distribution of electric appliances	August 2017 to present
Huilu Ecological Technology Group Co., Ltd.* (匯綠生態科技集團股份有限公司)	National Equities Exchange and Quotations	400038	Landscape planning and environmental protection	December 2014 to December 2020
Qingdao Hiron Commercial Cold Chain Co., Ltd (青島海容商用冷鏈股份有限公司)	Shanghai Stock Exchange	603187	Research and development, production, sale, and service of commercial cold chain equipment	June 2015 to June 2018

Mr. Ding has also been serving as a supervisor of Qingdao Hiron Commercial Cold Chain Co., Ltd (青島海容商用冷鏈股份有限公司), a company whose shares are listed on the Shanghai Stock Exchange, since 11 November 2021.

Mr. Ding graduated from the Central University of Finance and Economics (中央財經大學), the PRC with a bachelor's degree in Economics in June 1988 and received his master's degree in management from the Dongbei University of Finance and Economics (東北財經大學), the PRC in June 1999.



DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management team is responsible for the day-to-day management and operation of our business. The following table sets forth certain information regarding the members of our senior management team:

Name	Age	Position at our Company	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Director(s) and the senior management
Tian Mingze (田明澤)	51	Chief of SSAW steel pipe production	19 November 2016	Production management at Jinan Ma Steel	N/A
Zhang Ping (張平)	39	Deputy general manager (Overseas sales)	16 October 2016	Overseas sales of our Group	N/A
Liu Minghuai (劉明懷)	47	Deputy general manager (Finance)	1 March 2017	Overall management of the financial affairs of our Group	N/A

Tian Mingze (田明澤), aged 51, is the chief of SSAW steel pipe production of our Group. Mr. Tian began his career at Jinan Ma Steel as a procurement clerk in November 2001. He became the head of procurement and section chief of various departments at Jinan Ma Steel between 2001 to 2018. He joined our Group upon completion of the acquisition of Jinan Ma Steel in November 2016. He has been serving as the general manager and director of Jinan Ma Steel since November 2018 and December 2018 respectively. He was appointed as the chief of SSAW steel pipe production of our Group in May 2019 and he is responsible for production management at Jinan Ma Steel.

Mr. Tian has approximately 25 years of experience in pipe and foundry industries. Prior to joining our Group, he worked at Meide, and his last position was a sales representative from July 1994 to October 2011, where he was responsible for the sales of Meide's products.

Mr. Tian graduated from the Shandong Province Gongye School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a diploma in mechanical manufacturing in July 1994.



DIRECTORS AND SENIOR MANAGEMENT

Zhang Ping (張平), aged 39, is a deputy general manager (overseas sales) of our Company. He joined our Group as a general manager's assistant of Jinan Mech in November 2016 and subsequently became a deputy general manager in December 2018, where he was responsible for the sales and operation of the overseas market. He was appointed as our Group's deputy general manager (overseas sales) in May 2019 and he is responsible for the overseas sales of our Group.

Mr. Zhang has over 10 years of experience in overseas sales management. Prior to joining our Group, from September 2005 to November 2016, he worked in the import and export department of Meide as an officer, and his last position was a general manager of the import and export department where he is responsible, for Meide's overseas marketing.

Mr. Zhang graduated from Shandong Economics University* (山東經濟學院) (currently known as University of Finance and Economics (山東財經大學)), the PRC, with a bachelor's degree in international economics and trade in July 2004.

Liu Minghuai (劉明懷), aged 47, is the deputy general manager (finance) of our Company. He joined our Group as the financial director and the board's secretary of Jinan Mech in March 2017, where he was responsible for overseeing the our Group's financial and accounting management. He was appointed as our Group's deputy general manager (finance) in May 2019 and is primarily responsible for the overall management of the financial affairs of our Group.

Mr. Liu has over 20 years of experience in financial planning and management. Prior to joining our Group, from July 1999 to February 2017, he was the chief accountant and secretary to the board of (i) CNPC Jichai Power Equipment Company (中國石油集團濟柴動力有限公司), a company based in the PRC that develops, manufactures, and markets internal combustion engines, and (ii) Jinan Diesel Engine Company Ltd (濟南柴油股份有限公司) (currently known as CNPC Capital Company Limited (中國石油集團資本有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000617), that principally engages in banking, financial leasing, trust and insurance businesses, where he was responsible for managing its financial affairs.

Mr. Liu graduated from Xi'an Shiyou University (西安石油大學), the PRC, with a bachelor's degree in accounting in July 1999.



DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Leung Wing Lun (梁穎麟), aged 41, was appointed as the company secretary of our Company on 2 April 2019. He has over 18 years of experience in providing professional corporate services. From July 2004 to August 2005, he worked as an assistant accountant in Hop Fung Group Holdings Limited (a company listed on the Stock Exchange, stock code: 2320), where he was responsible for its day-to-day accounting duties. From September 2005 to March 2006, he worked as a contracted assistant taxation officer at the Inland Revenue Department in Hong Kong, where he was responsible for initial tax assessment. From March 2006 to July 2011, he worked as a tax consultant at Thomas Lee & Partners Ltd, where he was responsible for accounting and taxation business advisory. In November 2010, he founded Superior Alliance Group Company Limited and he has been a director since then, where he was responsible for taxation advisory and company secretarial service. He is currently the company secretary of Da Sen Holdings Group Limited (stock code: 1580), a company listed on the Stock Exchange principally engaged in the manufacturing and sales of plywood and biomass wood pellets, and has been the company secretary of Hang Yick Holdings Company Limited (stock code: 1894), a company listed on the Stock Exchange specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong from May 2018 to March 2021.

Mr. Leung graduated from the City University of Hong Kong with a bachelor's degree in business administration majoring in accounting in November 2004. He has been a Hong Kong Certified Public Accountant since February 2010.

Save as disclosed above, there was no relationship among each of the Directors and senior management at the date of this annual report.

CHANGE TO DIRECTORS' INFORMATION

Pursuant to rule 13.51B(1) of the Listing Rules, where there is a change in any of the information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of rule 13.51(2) during the course of the director's, supervisor's or chief executive's term of office, the issuer must ensure that the change and the updated information regarding the director, supervisor or chief executive is set out in the next published annual or interim report of the listed issuer (whichever is the earlier).

Save as disclosed above, there is no other change in the Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.



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 21,100 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	% of total	Sales volume ton'000	ASP RMB/ton
Standard prefabricated pipe nipples	412,845	19.6%	21.1	19,566
Steel pipe products				
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 RMB'000	% of total	Sales volume ton'000	ASP RMB/ton
Standard prefabricated pipe nipples	438,587	24.7%	27.0	16,244
Steel pipe products				
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



MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales by geographical regions

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

	For the year ended 31 December			
	2022		2021	
	Revenue	% of total	Revenue	% of total
	RMB'000	revenue	RMB'000	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	2,107,290	100.0%	1,776,028	100.0%

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

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by approximately 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB'000	2021 RMB'000
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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 and conditional government grants received.

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 16 June 2023.

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



MANAGEMENT DISCUSSION AND ANALYSIS

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 annual report.

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.



MANAGEMENT DISCUSSION AND ANALYSIS

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	–	–
Total number of employees	<u>949</u>	<u>54</u>	<u>56</u>

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 annual report.

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.



MANAGEMENT DISCUSSION AND ANALYSIS

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 regional advantages, train its human resource reserves, driven by its major projects assisted by its differentiated services and achieve its product increment through the supply channels in the PRC, Vietnam and Thailand; (2) in terms of product design and optimization, it will focus on the sales demand, leverage external research and development resources, continuously benchmark learning, 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 gradually diminished 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, 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.



REPORT OF THE DIRECTORS

The Directors are pleased to present this directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are mainly engaged in the manufacturing of steel pipe products and the prefabricated pipe nipple products. Details of the subsidiaries are disclosed in note 40 of the consolidated financial statements of the Group in this annual report.

BUSINESS REVIEW

A review of the business of the Group during the year ended 31 December 2022 and the discussion on the Group's future business development are set out in the section headed "Management Discussion and Analysis" in this annual report. The description key financial performance indicators are set out in the section headed "Management Discussion and Analysis" on pages 16 to 28 of this annual report. The details of the description of principal risks and uncertainties facing the Group are disclosed in note 37 and 38 of the consolidated financial statements of the Group in this annual report.

Relationships with employees, customers and suppliers

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise performing staff by providing a competitive remuneration package and implementing performance appraisal system, and to promote career development and progression by offering training and providing opportunities within the Group for career advancement.

Customers

The Group's customers mainly include gas and HVAC companies, water supply companies, infrastructure and construction companies, wholesalers and distributors which on-sell our products to their own customers. The Group provides professional and quality services whilst maintaining long term profitability and business growth.

Suppliers

We firmly believe that our suppliers are equally important in cost control and increasing our bargaining power on procurement of materials, which further secures our competitive position. We proactively communicate with suppliers to ensure they are committed to delivering high-quality and sustainable products and services.

During the year ended 31 December 2022, there was no material dispute or disagreement between the Group and its employees, customers or suppliers.



REPORT OF THE DIRECTORS

Regulatory and legal compliance

The Group recognises the importance of compliance with regulatory requirements and risks of non-compliance with such requirements. So far as the Directors is aware, the Group has complied in all material respects with the relevant laws and regulations that have significant impact on the business of the Group.

RESULTS AND FINAL DIVIDENDS

The Group's results for the year ended 31 December 2022 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this annual report.

The Board has recommended the payment of a final dividend of HK10 cents per ordinary share of the Company issued (approximately HKD43,380,000 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 of the Company 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 ordinary shareholders whose names shall appear on the register of members of the Company on 16 June 2023.

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

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.

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	Remaining net proceeds as at 31 December 2021	Actual use of proceeds for the year ended 31 December 2022	Remaining net proceeds as at 31 December 2022	Expected timeline of full utilisation of the remaining proceeds from the Global Offering as at 31 December 2022 (Note 1)
		RMB\$'000	RMB\$'000	RMB\$'000	RMB\$'000	
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 (Note 2)
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:

- The expected timeline of full utilisation is based on the Directors' best estimation barring unforeseen circumstances.
- The Company originally planned to apply the funds raised 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.



REPORT OF THE DIRECTORS

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.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 136 of this annual report. This summary does not form part of the Group's consolidated financial statements.

DONATIONS

During the year ended 31 December 2022, the Group made charitable donations amounted is nil (2021: nil).

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2022 are set out in note 32 to the consolidated financial statements in this annual report.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles or the laws of Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, amounted to approximately RMB165,560,000.

TAX RELIEF

The Company is not aware of any relief from taxation available to shareholders of the Company by reason of their holdings of Company's shares.

DIRECTORS

The Directors during the year were:

Executive Directors

Mr. Guo Lei (*Chairman and Chief executive officer*) (*Redesignated on 1 August 2022*)

Mr. Wang Ning (*Appointed on 1 August 2022*)

Mr. Yang Shufeng

Mr. Xu Jianjun (*Resigned on 1 April 2022*)

Mr. Kong Linglei (*Chairman*) (*Resigned on 1 August 2022*)

Non-executive Director

Ms. Zhao Xuelian

Independent Non-executive Directors

Mr. Liu Fengyuan

Mr. Ding Xiaodong

Mr. Ma Changcheng (*Resigned on 1 April 2023*)

In accordance with the Articles, Mr. Guo Lei, Mr. Yang Shufeng, Mr. Wang Ning and Mr. Ding Xiaodong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming general meeting.

Save as disclosed in this report, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the date of this report.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmations from Mr. Liu Fengyuan, Mr. Ding Xiaodong and Mr. Ma Changcheng in respect of their independence in accordance with the guidelines as set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

Further, the Company will appoint a sufficient number of independent non-executive directors to meet the minimum number required under Rule 3.10(1) or 3.10A of the Listing Rules or appoint an independent non-executive director to meet the requirement set out in Rule 3.10(2) Listing Rules within three months after failing to meet the requirements.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 15 of this annual report.



REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

The executive Directors have entered into service agreements with the Company and each of the independent non-executive Directors and the non-executive Director have signed an appointment letter with the Company. The principal particulars of these service contracts and the letters of appointment are (i) for a fixed term of three years, and (ii) are subject to termination in accordance with their respective terms. All Directors were appointed for a fixed period but subject to retirement from office and re-election at the annual general meeting of the Company in accordance with the Articles.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

EMOLUMENT POLICY

The Group has a total of 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. The total salaries and related costs granted to employees amounted to approximately RMB106.1 million for the year ended 31 December 2022. The remuneration packages of employees are determined based on their qualifications, position and experience. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotion.

The remuneration of the Directors is decided by the Board upon the recommendation from the Remuneration Committee after considering the relevant Director's qualifications, experience, responsibilities, duties and performance.

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 6 to the consolidated financial statements, respectively.

Save as disclosed above, there was no other long-term incentive schemes of the Group at the date of this report.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions" below, none of the Directors or Controlling Shareholders, nor a connected party of any Directors or Controlling Shareholders, had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of the Company's subsidiaries was a party during the year ended 31 December 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, none of the Directors was interested in any business which competed or was likely to compete, either directly or indirectly, with the Group's businesses.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

There were no arrangements to which the Company, its subsidiaries, its holding company or its holding company's subsidiaries was a party to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate during the Year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year ended 31 December 2022.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions and connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Products supply framework agreement

Mr. Kong Linglei is one of the Controlling Shareholder and thus a connected person of the Company as defined under Chapter 14A of the Listing Rules. Mr. Kong wholly owns Ningbo Ming De Heng Sheng Investment Limited (寧波明德恒生投資有限公司), a company established under the laws of the PRC, which in turn owns 35.49% of Meide. Mr. Kong also holds 6.5% limited partnership interest in and is the general partner of Jinan Gong Chuang Meide Corporate Partnership (Limited Partnership) (濟南共創玫德企業管理合夥企業(有限合夥)), which in turn owns 64.51% of Meide. Accordingly, Meide is an associate of Mr. Kong as defined under Chapter 14A of the Listing Rules and therefore a connected person of the Company.



REPORT OF THE DIRECTORS

As the 2019 products supply framework agreement dated 22 November 2019 (the “2019 Products Supply Framework Agreement”) expired on 31 December 2021, on 29 December 2021 (after trading hours), a framework products supply agreement (the “2022 Products Supply Framework Agreement”) was entered into between the Company on behalf of the Group as the vendor and Meide on behalf of Meide together with its subsidiaries as the purchaser, under which the Group agreed to sell products including steel pipes, standard prefabricated pipe nipples, and other products as specified in the 2022 Products Supply Framework Agreement to Meide Group. The 2022 Products Supply Framework Agreement renewed and revised the transactions contemplated under the 2019 Products Supply Framework Agreement and is effective for three years and may be renewed by the Company, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations. The annual cap of this continuing connected transaction for the year ended 31 December 2022 was RMB76.8 million, in aggregate (RMB48 million for distribution and RMB28.8 million for internal use within Meide Group). The aggregate amounts for the sales of products under the 2022 Products Supply Framework Agreement to Meide Group for distribution and for internal use within Meide Group for the year ended 31 December 2022 were approximately RMB35.5 million and RMB22.2 million respectively.

Products purchase framework agreement

As the 2019 products purchase framework agreement (the “2019 Products Purchase Framework Agreement”) expired on 31 December 2021, on 29 December 2021 (after trading hours), the Company as the purchaser and Meide as the vendor entered into the 2022 products purchase Framework agreement (the “2022 Products Purchase Framework Agreement”), under which the Group agreed to purchase products including pipe fittings, repair parts, valves and crafts from Meide Group. The 2022 Products Purchase Framework Agreement renewed and revised the transactions contemplated under the 2019 Products Purchase Framework Agreement and is effective for three years and may be renewed by the Company, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations. The annual cap of this continuing connected transaction for the year ended 31 December 2022 was RMB37.26 million. The aggregate amounts for purchases of products under the 2022 Products Purchase Framework Agreement from Meide Group for the year ended 31 December 2022 was approximately RMB15.2 million.

Listing Rules implications

As one or more of the applicable percentage ratios as defined under the Listing Rules in respect of the largest annual caps under the 2022 Products Supply Framework Agreement and the 2022 Products Purchase Framework Agreement exceed 5%, the transactions under the 2022 Products Supply Framework Agreement and the 2022 Products Purchase Framework Agreement constitute a non-exempt continuing connected transaction of the Company and is subject to the reporting, annual review, announcement, circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.105 of the Listing Rules, the Stock Exchange has granted to the Company a waiver from strict compliance with the announcement and independent shareholders’ approval requirements of the Listing Rules, subject to the aggregate values of the continuing connected transactions for each financial year not exceeding the relevant amounts set forth in the respective annual caps (as stated above).

The independent non-executive Directors have reviewed the continuing connected transaction set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole. Deloitte Touche Tohmatsu, the Company's auditors, were engaged to report on the Group's continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Deloitte Touche Tohmatsu have issued their unqualified letter in accordance with rule 14A.56 of the Listing Rules concluding the followings:

- (a) nothing has come to their attention that causes them to believe that the above continuing connected transaction has not been approved by the Board;
- (b) nothing has come to their attention that causes them to believe that the transactions were not, in all material aspects, in accordance with the pricing policies of the Company;
- (c) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) nothing has come to their attention that causes them to believe that the above continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Trademark Licensing Agreement

On 31 March 2019, a trademark licensing agreement was entered on between Meide Group and the Company pursuant to which Meide agreed to irrevocably grant the exclusive right to our Company (and its subsidiaries) the right to use Meide's trademarks for business operation globally for nil consideration for an initial term of 10 years commencing on the date of the Trademark Licensing Agreement and will be renewed automatically every 10 years from the initial expiry date to the extent permissible under the Listing Rules, relevant laws and regulations (the "Trademark Licensing Agreement"). The provisions under this agreement provided for mutual termination by parties and does not provide for unilateral termination by our Company or Meide.

The transactions under Trademark Licensing Agreement fall within de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Listing Rules, given that nil consideration is payable, and will be exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.



REPORT OF THE DIRECTORS

A Lease Agreement in relation to a factory facility in Thailand

On 31 March 2021, Delta Electric (Thailand) (as Lessee) entered into a lease agreement with Thai Steel Pipe (as Lessor) in respect of a factory facility in Thailand for a term of 2.75 years (the “Lease Agreement”). The Lease Agreement will commence from 1 April 2021 and expiring on 31 December 2023. The aggregated value of the Rent payable shall amount to THB31.8 million (approximately HKD7.92 million). Siam Fittings Company Limited (“Thai Steel Pipe”) is an indirect wholly owned subsidiary of Meide, which is in turn controlled by Mr. Kong. Therefore Thai Steel Pipe is a connected person of the Company under the Listing Rules. As such, under Chapter 14A of the Listing Rules, the transactions contemplated under the Lease Agreement constitute a one-off connected transaction of the Company.

Except for the interest expenses charged by Meide, all of the Group’s related party transactions as disclosed in note 34 to the Group’s consolidated financial statements constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules.

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

As at 31 December 2022, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



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

As at 31 December 2022, so far as is known or otherwise notified to any Director or the chief executive of the Company, the particulars of the corporations or individuals (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were record in the register required to be kept under section 336 of the SFO, were as follows:

Name	Nature of Interest	Number of Shares ⁽¹⁾⁽²⁾	Approximate percentage of Shareholding in the total issued share capital of our Company ⁽¹⁾⁽²⁾
Kong Linglei ⁽³⁾	Interest of a controlled corporation	172,600,000 Shares (L)	39.79%
Ying Stone	Beneficial owner	172,600,000 Shares (L)	39.79%
Tong Chuang Sheng De Limited	Beneficial owner	70,160,000 Shares (L)	16.17%
Tong Chuang Xing De BVI	Beneficial owner	51,040,000 Shares (L)	11.77%

Notes:

- (1) All interests stated are long positions.
- (2) Based on the total number of 433,800,000 Shares in issue as at 31 December 2022.
- (3) Kong Linglei holds 100% of the issued share capital of Ying Stone, which in turn holds 172,600,000 Shares, representing approximately 39.79% of the issued share capital of our Company.



REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2022, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

(i) Purpose of the Share Option Scheme

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

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

(ii) Participants

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

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

(iii) Maximum number of Shares

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

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme (including both exercised or outstanding options) to each Eligible Person in any 12-month period must not exceed 1.0% of the issued share capital of our Company for the time being (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 HK\$1.00 (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.



REPORT OF THE DIRECTORS

(viii) Basis of determining the exercise price

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

(ix) The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing from the Adoption Date. As at the date of this report, it has a remaining life of around 6.5 years.

No share options were granted, exercised, cancelled or lapsed under the Scheme since the adoption of the Scheme and up to the date of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2022, the aggregate revenue from the Group’s largest customer and five largest customers accounted for approximately of 8.3% and 20.8% of the total revenue, respectively. Purchases from the Group’s largest supplier and five largest suppliers accounted for approximately of 21.5% and 64.9% of the total purchases for the year ended 31 December 2022, respectively.

None of the Directors or any of their associates or any Shareholders (which to the best knowledge of the Directors, own more than 5% of the number of issued Shares Company) had any beneficial interest in the Group’s five largest customers or suppliers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained the prescribed public float requirements under the Listing Rules from the Listing Date and up to the date of this annual report.

EVENTS SUBSEQUENT TO THE END OF THE REPORTING PERIOD

Details of the significant events of the Group subsequent to the end of the reporting period set out in the section headed “Management Discussion and Analysis” on page 27 of this annual report.



REPORT OF THE DIRECTORS

PERMITTED INDEMNITY PROVISION

During the year ended 31 December 2022, a permitted indemnity provision as required by the Companies Ordinance (Chapter 622 Section 470, the Laws of Hong Kong) was in force for the benefits of all Directors.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2022 have been audited by Messrs. Deloitte Touche Tohmatsu.

Messrs. Deloitte Touche Tohmatsu will retire, and being eligible, offer themselves for re-appointment. A resolution for the reappointment of Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Guo Lei

Chairman and Chief Executive Officer

Hong Kong

24 March 2023





CORPORATE GOVERNANCE REPORT

The Board hereby presents this corporate governance report in the Group's annual report for the year ended 31 December 2022.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance to protect the interest of its Shareholders and to place importance on its corporate governance system. The Company has adopted the Corporate Governance Code contained in Appendix 14 to the Listing Rules issued by the Stock Exchange as its own code of corporate governance.

This report describes the Company's corporate governance practices and structures that were in place during the financial year ended 31 December 2022, with specific reference to the principles and guidelines of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules issued by the Stock Exchange.

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, 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.

Save as disclosed, during the year ended 31 December 2022, in the opinion of the Directors, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Company will continue to review and monitor its corporate governance practices to ensure compliance with the Corporate Governance Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set in Appendix 10 to the Listing Rules as its own code of conduct regarding 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 report.

BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Group, and delegates day-to-day operations to the management team of the Group. The Board provides directions to the management team by laying down strategies and plans, and then oversees the implementation performed by the management team. The Board also timely monitors the Group's operational and financial performance through monthly reports prepared by the management team of the Group. The Board also reviews the compensation policies, succession planning, internal control system and risk management system regularly through various committee established under the Board.

Composition

The Board currently comprises six Directors, including three executive Directors, one non-executive director and two independent non-executive Directors. As at the date of this report, the Board comprises the followings Directors:

Executive Directors

Mr. Guo Lei (*Chairman and Chief executive officer*)
Mr. Yang Shufeng
Mr. Wang Ning

Non-executive Director

Ms. Zhao Xuelian

Independent Non-executive Directors

Mr. Liu Fengyuan
Mr. Ding Xiaodong

The relationships among members of the Board have been disclosed in the section headed "Biographical Details of Directors and Senior Management" in this annual report. During the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board and at least one independent non-executive Director with appropriate professional qualifications, or accounting or related financial management expertise.



CORPORATE GOVERNANCE REPORT

Following the resignation of Mr. Ma Changcheng on 1 April 2023, the Board will still have at least one INED possessing appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. However, it will fail to meet the requirement of (i) Rule 3.10(1) and Rule 3.10A of the Listing Rules in relation to the composition of the Board; (ii) Rule 3.21 of the Listing Rules in relation to the composition of the Audit Committee; (iii) Rule 3.25 of the Listing Rules in relation to the composition of the Remuneration Committee and (iv) Rule 3.27A of the Listing Rules in relation to the composition of the Nomination Committee. The Company has already identified potential candidate(s) to fill the vacancy of the INED and the chairman and member(s) of the Remuneration Committee and member(s) of the Audit Committee and Nomination Committee (as the case may be). The Company will use its best endeavours to ensure that suitable candidate(s) is appointed as soon as practicable in order to ensure compliance with the Listing Rules. The Company expects replacements to be appointed within three months from 1 April 2023 pursuant to Rules 3.11, 3.23 and 3.27 of the Listing Rules

Independence of the independent non-executive Directors

The Company has received annual written confirmations from all independent non-executive Directors with regard to their independence, and therefore the Company still consider, based on the guidelines set out in Rule 3.13 of the Listing Rules, that all independent non-executive Directors to be independent.

Continuous professional development

During the year ended 31 December 2022, all of the Directors participated in continuous professional development by either attending external seminars and conferences, or reading materials relating corporate governance practices, directors' duty and the Listing Rules.

Chairman and Chief Executive

Mr. Guo Lei currently serves as the chairman of the Board and the chief executive officer of the Company.

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. However, upon the appointment of chairman of the Board, 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, 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.

Appointment & re-election of Directors

The procedures and process of appointment and re-election of the Directors are laid down in the Articles. Pursuant to the Articles, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall retire from office by rotation and are subject to re-election at annual general meeting at least once every three years. Directors who are appointed to fill casual vacancies shall hold office only until the next following general meeting after their appointment, and are subject to re-election by the Shareholders.

Mr. Guo Lei, Mr. Yang Shufeng, Mr. Wang Ning and Mr. Ding Xiaodong will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming general meeting.

Indemnity of Directors

The Company has taken out directors and officers liability insurance to cover liabilities arising from legal action against the Directors.

Board Committees

The Board has established three Board committees, being the Audit Committee, the Nomination Committee and the Remuneration Committee, to oversee different areas of the Company's affairs. The terms of reference of the Board committees are published on the Company's website and the website of the Stock Exchange.

CORPORATE GOVERNANCE FUNCTION

The Board recognises that corporate governance should be the collective responsibility of Directors and the corporate governance duties include:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Company and Directors; and
- (e) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.



CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Our Company established the Audit Committee on 19 November 2019 with its written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee include among other matters, to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, provide advice and comments to our Board, perform other duties and responsibilities as may be assigned by our Board and review and oversee the risk management of our Company, by satisfying themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits.

The Audit Committee consists of two members, namely Mr. Ding Xiaodong and Mr. Liu Fengyuan. Mr. Ding Xiaodong has been appointed as the chairman of the Audit Committee, and is the independent non-executive Director who possesses the appropriate professional accounting and related financial management expertise. All members of the Audit Committee are independent non-executive Directors.

The work performed by the Audit Committee during the year ended 31 December 2022 comprises the following:

- reviewed the annual results announcement and the annual report of the Group for the year ended 31 December 2021;
- reviewed the interim results announcement and the interim report of the Group for the six months ended 30 June 2022;
- made recommendations to the Board on reappointment of the Company's external auditor;
- approved the remuneration and terms of engagement of the Company's external auditor;
- reviewed and monitoring the independence of the Company's external auditor, objectivity and the effectiveness of the audit process;
- reviewed the effectiveness and resources of the risk management and internal control systems of the Group;
- reviewed the Group's risk management and financial control system; and
- reviewed the Group's accounting policies and practices.

Subsequent to 31 December 2022 and up to the date of this report, the Audit Committee has also review the annual results announcement and the annual report of the Group for the year ended 31 December 2022.

Remuneration Committee

Our Company established the Remuneration Committee on 19 November 2019 with its written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee include, among other matters, to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time-to-time.

The Remuneration Committee consists of two members, namely Mr. Liu Fengyuan and Mr. Guo Lei. Mr. Liu Fengyuan, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The majority of the Remuneration Committee members are independent non-executive Directors. Mr. Liu Fengyuan is independent non-executive Directors and Mr. Guo Lei is an executive Director.

The work performed by the Remuneration Committee during the year ended 31 December 2022 comprises the followings:

- reviewed the remuneration of Directors and senior management; and
- assessed performance of executive Directors and approved the terms of executive Directors' service contracts.

Pursuant to code provision B.1.5 of the Corporate Governance Code, the remuneration paid to the senior management by band for the year ended 31 December 2022 is set out below:

Remuneration bands	Number of individual(s)
HK\$2,500,001 to HK\$3,000,000	1
HK\$1,500,001 to HK\$2,000,000	1
HK\$1,000,001 to HK\$1,500,000	2
Below HK\$1,000,000	1

Details of remuneration of the Directors and the five highest paid individuals are set out in notes 6(a) and 6(b) to the consolidated financial statements in this annual report, respectively.



CORPORATE GOVERNANCE REPORT

Nomination Committee

Our Company established the Nomination Committee on 19 November 2019 with its written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee include, among other matters, to review the structure, size and composition of our Board on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship, ensure the diversity of our Board members, assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors.

The Nomination Committee consists of two members, namely Mr. Guo Lei and Mr. Liu Fengyuan. Mr. Guo Lei, our Chairman and executive Director, has been appointed as the chairman of the Nomination Committee. The majority of the Nomination Committee members are independent non-executive Directors. Mr. Liu Fengyuan is independent non-executive Directors and Mr. Guo Lei is an executive Director.

The work performed by the Nomination Committee during the year ended 31 December 2022 comprises the following:

- reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;
- made recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate;
- assessed the independence of independent non-executive directors in accordance with the provisions of the Listing Rules and other relevant laws, rules and regulations; and
- reviewed the board diversity policy, developed and reviewed measurable objectives for implementing the board diversity policy and monitoring the progress on achieving these objectives.



Board Diversity Policy

The Board recognises the importance of diversity in the Board composition and has adopted a board diversity policy which sets out the approach to achieve a sustainable and balanced development of the Company and also to enhance the quality of performance of the Company. In designing the Board's composition, selection of candidates has been considered from a number of perspectives and measurable objectives, including but not limited to gender, age, cultural and educational background, industry experience, technical and professional skills and/or qualifications, knowledge, length of services and time to be devoted as a director. The Company will also take into account factors relating to its own business model and specific needs from time to time. The ultimate decision is based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee has considered and reviewed the composition and diversity of the Board. All the executive Directors and non-executive Director possess extensive and diversified experience in management and industrial experience. The three independent non-executive Directors possess professional knowledge in management, finance, accounting and legal aspects. The Nomination Committee will review the board diversity policy, as appropriate, to ensure its effectiveness.

The Nomination Committee recognises that the gender diversity of the Board and will continue to use its best efforts, to train, retain, attracts and select suitable female candidates that can contribute success to the Group. As at the date of this report, the Board comprises seven male directors and one female director.

As at 31 December 2022, approximately 23% of the Group's employees (including senior management) are female and 77% are male.

Board and Board committee meetings

Code provision A.1.1 of the Corporate Governance Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

CORPORATE GOVERNANCE REPORT

The attendance of each Director for the Board meetings and general meeting held during the year ended 31 December 2022 is set out in the following table:

Name of Director	Attendance/Number of Meetings				General Meeting
	Board	Audit Committee	Nomination Committee	Remuneration Committee	
Executive Directors					
Mr. Guo Lei (<i>Chairman of the Board and Chief executive officer</i>)	4/4	N/A	N/A	N/A	1/1
Mr. WANG Ning	3/3	N/A	N/A	N/A	1/1
Mr. Yang Shufeng	4/4	N/A	N/A	N/A	1/1
Mr. Xu Jianjun (<i>Resigned on 1 April 2022</i>)	1/1	N/A	N/A	N/A	N/A
Mr. Kong Linglei (<i>Chairman of the Board</i>) (<i>Resigned on 1 August 2022</i>)	2/2	N/A	1/1	1/1	1/1
Non-executive Director					
Ms. Zhao Xuelian	4/4	N/A	N/A	N/A	1/1
Independent non-executive Directors					
Mr. Liu Fengyuan	4/4	3/3	1/1	1/1	1/1
Mr. Ding Xiaodong	4/4	3/3	N/A	N/A	1/1
Mr. Ma Changcheng (<i>Resigned on 1 April 2023</i>)	4/4	3/3	1/1	1/1	1/1

Apart from the above Board meetings, the Chairman also held a meeting with the independent non-executive Directors only without the presence of other Directors during the year ended 31 December 2022.

AUDITOR'S REMUNERATION

For the year ended 31 December 2022, the remuneration paid or payable to Messrs. Deloitte Touche Tohmatsu and its affiliate companies in respect of audit and non-audit services provided is set out below:

Services rendered	RMB'000
Audit services	1,880
Non-audit services	—
	1,880

The fees attributable to the non-audit services above mainly include the service fee paid to Messrs. Deloitte Touche Tohmatsu as the reporting accountants of the Company in connection with the initial public offering and the review of the Group's condensed consolidated financial statements.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2022 that give a true and fair view of the state of affairs of the Group in accordance with International Financial Reporting Standards. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The reporting responsibilities of the Company's auditor with regards to the consolidated financial statements of the Group are set out in the independent auditor's report as contained in this annual report.

As Deloitte Touche Tohmatsu is relatively familiar with the Group's financials and affairs, the Board considers that the audit and other related work in respect of the Group for the year ending 31 December 2022 could be performed more efficiently by Deloitte Touche Tohmatsu, which is in the best interests of the Company and the Shareholders as a whole.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. In addition to the Board's responsibilities, the senior management of the Company has risk management processes to identify, evaluate and manage significant risks, review the effectiveness of the risk management and internal control systems and to resolve material internal control defects. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board acknowledges that such risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. The Board and the Audit Committee will review the need for an internal audit function from time to time. During the year ended 31 December 2022, the Board confirms that it has conducted a review of the risk management and internal control systems of the Group by the external internal control consultant. The Board concludes, based on the result of the review, that the risk management and internal control systems currently in place are adequate and effective for the year ended 31 December 2022.

The Board expects that a review of the risk management and internal control systems will be performed annually.



CORPORATE GOVERNANCE REPORT

With respect to the procedures and internal controls for the handling and dissemination of inside information, our Group has policy and procedures which prohibit unauthorised use and dissemination of inside information. Our Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission. In addition, only Directors and delegated officers can act as the Group’s spokesperson and respond to external enquiries about the Group’s affairs.

COMPANY SECRETARY

Mr. Leung Wing Lun, an external service provider, has been engaged by the Company as its company secretary. The primary corporate contact persons at the Company are Mr. Liu Minghuai, the Deputy general manager (Finance). The biographical details of Mr. Leung are set out under the section headed “Biographical Details of Directors and Senior Management” in this annual report.

During the year ended 31 December 2022, the company secretary of the Company had confirmed that he had taken no less than 15 hours of relevant professional training in compliance with the Listing Rules.

SHAREHOLDERS’ RIGHTS

Procedure for Shareholders to send enquiries

Shareholders may at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of the business of the Company in Hong Kong at Unit 1102, 11/F, Brill Plaza, 84 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong for the attention of the company secretary of the Company.

Procedure for convene an extraordinary general meeting and putting forward proposals

Shareholders can at any time raise enquiries to the Board. The enquiries must be in writing with contact information of the Shareholder(s) and deposited at the principal place of business of the Company in Hong Kong at Unit 1102, 11/F, Brill Plaza, 84 To Kwa Wan Road, To Kwa Wan, Kowloon, Hong Kong for the attention of the company secretary of the Company.



Any one or more duly registered holder of the Shares holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified and putting forward proposals in such requisition; the written requisition shall be deposited at the principal place of business of the Company in Hong Kong, specifying the objects of the meeting and signed by the requisitioner(s). Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitioner(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the Board shall be reimbursed to the requisitioner(s) by the Company.

Dividend policy

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meeting, the annual report and interim report, notices, announcements and circulars that are available on Company's website at www.mechpipingtech.com. Overall, the Company considers the shareholders' communication policy of the Group implemented and conducted during the year to be effective. The Company will continue to review the implementation and effectiveness of the shareholders' communication policy by shareholders' feedback from the above channel.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2022, there has been no changes in the constitutional documents of the Company.

The memorandum and articles of association of the Company are available for viewing on the websites of the Company and the Stock Exchange.



INDEPENDENT AUDITOR'S REPORT

Deloitte.

德勤

TO THE SHAREHOLDERS OF MAIKE TUBE INDUSTRY HOLDINGS LIMITED

邁科管業控股有限公司

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Maikē Tube Industry Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 61 to 135, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

KEY AUDIT MATTER — *continued*

Key audit matter

Impairment of trade receivables

As at 31 December 2022, the Group has trade receivables amounting to RMB340,064,000, net of allowance amounting to RMB16,034,000.

Management judgement is required in assessing and determining the recoverability of trade receivables and adequacy of allowance made using the expected credit losses (“ECL”) model under HKFRS 9 *Financial Instruments*. These judgements include estimating and evaluating expected future receipts from customers based on the Group’s historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The key assumptions and estimation on allowance for ECL and the Group’s credit risk management are disclosed in notes 4 and 38 to the consolidated financial statements, and further information related to trade receivables is provided in note 17 to the consolidated financial statements.

How our audit addressed the key audit matter

In evaluating management’s impairment assessment for trade receivables, our procedures included:

- Obtaining an understanding of the relevant key controls over the assessment and monitoring of credit risks, and determination of allowance for ECL;
- Evaluating the model used by management in determining the allowance for ECL;
- Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2022, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents;
- Challenging management’s basis and judgement in determining credit loss allowance on trade receivables as at 31 December 2022, including their identification of credit-impaired trade receivables, the reasonableness of management’s grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and
- Obtaining confirmations and evidences of subsequent settlements on a sample basis for trade receivable balances.



INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS – *continued*

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, action taken to eliminate threats or safeguards applied.

From the matter communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and is therefore the key audit matter. We describe the matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Cheung, Wilfred.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2023



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	5	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	7	4,363	26,615
Other gains and losses	7	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	8	(5,097)	(2,568)
Finance costs	9	<u>(5,331)</u>	<u>(5,242)</u>
Profit before taxation	10	153,251	130,134
Taxation charge	11	<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)	13	<u>0.322</u>	<u>0.267</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	14	421,879	408,304
Deferred tax assets	15	5,727	1,911
Deposits for plant and equipment		656	471
		<u>428,262</u>	<u>410,686</u>
Current assets			
Inventories	16	249,478	288,197
Trade receivables	17	340,064	266,208
Trade receivables backed by bills	18	12,028	62,715
Contract assets	20	26,907	25,859
Tax recoverable		4,225	2,783
Deposits, prepayments and other receivables	21	121,385	74,101
Amounts due from related parties	22	7,318	4,623
Financial assets at fair value through profit or loss ("FVTPL")	23	1,516	876
Pledged bank deposits	24	33,510	5,740
Cash and cash equivalents	24	57,760	86,548
		<u>854,191</u>	<u>817,650</u>
Current liabilities			
Trade and bill payables	25	90,704	92,971
Contract liabilities	26	41,809	41,808
Refund liabilities	27	10,600	13,412
Other payables and accrued charges	28	81,343	60,970
Amounts due to related parties	22	4,816	690
Provisions		2,238	1,396
Tax liabilities		655	600
Borrowings	29	75,946	166,352
Lease liabilities	30	3,541	3,283
Deferred income	31	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>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	NOTES	2022 RMB'000	2021 RMB'000
Non-current liabilities			
Lease liabilities	30	3,908	6,640
Deferred tax liabilities	15	14,143	7,866
Deferred income	31	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	32	304	304
Reserves		934,273	826,327
		<u>934,577</u>	<u>826,631</u>
Attributable to owners of the Company		934,577	826,631
Non-controlling interests		<u>5,306</u>	<u>5,717</u>
Total equity		<u>939,883</u>	<u>832,348</u>

The consolidated financial statements on pages 61 to 135 were approved and authorised for issue by the board of directors on 24 March 2023 and are signed on its behalf by:

DIRECTOR

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company								Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note a)	Statutory surplus reserve RMB'000 (Note b)	Translation reserve RMB'000	Retained profits RMB'000	Sub-total equity RMB'000	Non- controlling interests RMB'000	
At 1 January 2021	304	362,148	123,260	28,465	(791)	242,040	755,426	-	755,426
Profit (loss) for the year	-	-	-	-	-	116,021	116,021	(732)	115,289
Other comprehensive expense for the year	-	-	-	-	(1,500)	-	(1,500)	(516)	(2,016)
Total comprehensive (expense) income for the year	-	-	-	-	(1,500)	116,021	114,521	(1,248)	113,273
Non-controlling interests arising on the incorporation of a subsidiary (Note c)	-	-	-	-	-	-	-	6,965	6,965
Dividends recognized as distribution	-	(36,629)	-	-	-	(6,687)	(43,316)	-	(43,316)
Transfer to statutory surplus reserve	-	-	-	10,454	-	(10,454)	-	-	-
At 31 December 2021	304	325,519	123,260	38,919	(2,291)	340,920	826,631	5,717	832,348
Profit (loss) for the year	-	-	-	-	-	139,695	139,695	(905)	138,790
Other comprehensive income for the year	-	-	-	-	5,350	-	5,350	494	5,844
Total comprehensive income (expense) for the year	-	-	-	-	5,350	139,695	145,045	(411)	144,634
Dividends recognized as distribution	-	(37,099)	-	-	-	-	(37,099)	-	(37,099)
Transfer to statutory surplus reserve	-	-	-	12,822	-	(12,822)	-	-	-
At 31 December 2022	<u>304</u>	<u>288,420</u>	<u>123,260</u>	<u>51,741</u>	<u>3,059</u>	<u>467,793</u>	<u>934,577</u>	<u>5,306</u>	<u>939,883</u>

Notes:

- Other reserve represented the difference between (i) the difference between the nominal value of shares or equity interests paid/received by Mr. Kong (as defined in note 1) and the share of net assets by non-controlling interests for each acquisition or disposal of shares/equity interests pursuant to changes in ownership interests in Jinan Mech Piping Technology Co., Ltd ("Jinan Mech") and Jinan Magang steep Pipes Manufacturing Company ("Jinan Ma Steel") in 2016 which did not result in change of control and; (ii) the difference between the consideration paid to non-controlling interests in acquiring the remaining registered capital of Jinan Mech and the share of net assets of Jinan Mech by non-controlling interests upon and reorganisation in 2019.
- As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- 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. The registered capital was fully paid during the year ended 31 December 2021.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	153,251	130,134
Adjustments for:		
Impairment losses under expected credit loss model on trade receivables and contract assets	5,097	2,568
Finance costs	5,331	5,242
Depreciation of property, plant and equipment	38,335	28,248
(Gains) losses on disposals of property, plant and equipment	(23)	28
Fair value change of foreign currency forward contracts	(547)	448
Fair value change of derivative financial instruments	(93)	(715)
Write-down of inventories	2,169	594
Fair value change on structured bank deposits	(26)	(639)
Interest income	(256)	(396)
Amortization of deferred income	(1,051)	–
Unrealised exchange differences	(2,715)	114
Operating cash flows before movements in working capital	199,472	165,626
Decrease (increase) in inventories	41,052	(79,083)
Increase in trade receivables	(80,023)	(64,408)
Decrease (increase) in trade receivables backed by bills	50,687	(34,855)
Decrease (increase) in contract assets	22	(7,859)
(Increase) decrease in deposits, prepayments and other receivables	(47,284)	14,116
(Increase) decrease in amounts due from related parties	(2,695)	1,202
(Decrease) increase in trade and bill payables	(6,444)	20,880
Increase (decrease) in contract liabilities	1	(4,832)
Increase in other payables and accrued charges	24,291	16,741
(Decrease) increase in refund liabilities	(2,812)	3,292
Increase (decrease) in provisions	842	(5)
Increase (decrease) in amounts due to related parties	4,126	(74)
Increase in deferred income	10,000	–
Cash generated from operations	191,235	30,741
Income taxes paid	(13,387)	(8,073)
Net cash generated from operating activities	177,848	22,668

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(49,515)	(182,475)
Deposits for plant and equipment	(656)	(471)
Proceeds from disposals of property, plant and equipment	3,055	–
Receipts from structured bank deposits	26	639
Interest received	256	396
Placement of pledged bank deposits	(68,849)	(3,960)
Withdrawal of pledged bank deposits	41,079	17,946
Placement of structured bank deposits	(141,850)	(255,400)
Withdrawal of structured bank deposits	141,850	342,900
	<u>(74,604)</u>	<u>(80,425)</u>
FINANCING ACTIVITIES		
Borrowings raised	132,000	185,000
Repayment of borrowings	(223,000)	(82,000)
Dividends paid to owners of the Company	(37,099)	(43,316)
Capital injection by non-controlling shareholders	–	6,965
Payment of lease liabilities	(3,630)	(3,076)
Interest paid	(4,360)	(5,760)
	<u>(136,089)</u>	<u>57,813</u>
Net cash (used in) generated from financing activities	<u>(136,089)</u>	<u>57,813</u>
Net (decrease) increase in cash and cash equivalents	(32,845)	56
Cash and cash equivalents at 1 January	86,548	87,254
Effect of foreign exchange rate changes	4,057	(762)
	<u>57,760</u>	<u>86,548</u>
Cash and cash equivalents at 31 December, represented by		
Cash and cash equivalents	<u>57,760</u>	<u>86,548</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. GENERAL INFORMATION

Maike Tube Industry Holdings Limited (the “Company”) was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 1 February 2019. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 18 December 2019. The immediate holding company is Ying Stone Holdings Limited (“Ying Stone”), which was incorporated in the British Virgin Islands (the “BVI”) and entirely owned by Mr. Kong Linglei (孔令磊) (“Mr. Kong”). The addresses of the registered office and the principal place of business of the Company are 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. Details of the subsidiaries are disclosed in note 40. The Company and its subsidiaries are collectively referred as the “Group”.

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

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based* payment, leasing transactions that are accounted for in accordance with HKFRS 16 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.1 Basis of preparation of consolidated financial statements – *continued*

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Basis of consolidation – continued

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Revenue from contracts with customers – continued

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 *Financial Instruments*. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Revenue from contracts with customers – continued

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services

Variable consideration

For contracts that contain variable consideration (i.e. refund liabilities on volume rebates), the Group estimates the amount of consideration to which it will be entitled using the expected value method, which better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers. The refund liabilities are usually paid annually.

Sale with a right of return

For a sale of products with a right of return, the Group recognises revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Revenue from contracts with customers – continued

Contract costs

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application of HKFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Leases – continued

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Leases – continued

The Group as a lessee – *continued*

Right-of-use assets – *continued*

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the lease term.

The Group presents right-of-use assets in “property, plant and equipment”, the same line item within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

Employee benefits

Retirement benefits costs

Payments to defined contribution retirement benefit are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Taxation

Income tax expense represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Taxation – continued

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production and administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Impairment loss on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, (if any).

The recoverable amount of tangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Impairment loss on tangible assets – continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers and the related Amendments*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“FVTOCI”):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Classification and subsequent measurement of financial assets – *continued*

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the “other gains and losses” line item.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, trade receivables backed by bills, deposits and other receivables, pledged bank deposits, cash and cash equivalents and amounts due from related parties) and contract assets, which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets, trade receivables backed by bills and trade related amounts due from related parties without significant financing component.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – *continued*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – *continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – *continued*

(i) Significant increase in credit risk – *continued*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when the instrument is more than 50 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – *continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – *continued*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer of the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – *continued*

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – *continued*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables, contract assets, trade receivables backed by bills and trade related amounts due from related parties without significant financing component are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial assets – continued

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 – *continued*

(v) Measurement and recognition of ECL – *continued*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and trade nature amounts due from related parties where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES – *continued*

3.2 Significant accounting policies – *continued*

Financial instruments – continued

Financial liabilities and equity – *continued*

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company is recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and bill payables, other payables and accrued charges, refund liabilities, borrowings and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

4. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 3, management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainties at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables and contract assets under HKFRS 9

The Group calculates ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

5. 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 RMB'000	2021 RMB'000
<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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

5. REVENUE AND SEGMENTAL INFORMATION – *continued*

Revenue – continued

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 set out in note 3. 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 (note)	
	Year ended 31 December		As at 31 December	
	2022 RMB'000	2021 RMB'000	2022 RMB'000	2021 RMB'000
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

5. REVENUE AND SEGMENTAL INFORMATION – *continued*

Information about major customer

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

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to the directors of the Company (including emoluments for services as director/employees of Group entities prior to becoming the directors of the Company) by entities comprising the Group as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note vi)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
For the year ended 31 December 2022:					
Executive directors (note i)					
Guo Lei (note ii)	-	991	1,246	46	2,283
Yang Shufeng	-	451	500	49	1,000
Wang Ning (note iii)	-	330	286	49	665
Sub-total	-	1,772	2,032	144	3,948
Independent non-executive directors (note iv)					
Mr. Liu Fengyuan	-	100	-	-	100
Mr. Ma Changcheng	-	100	-	-	100
Mr. Ding Xiaodong	-	100	-	-	100
Sub-total	-	300	-	-	300
Non-executive director (note v)					
Mrs. Zhao Xuelian	-	-	-	-	-
Sub-total	-	-	-	-	-
Total					4,248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – *continued*

(a) Directors' and chief executive's emoluments – *continued*

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000 (note vi)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
For the year ended 31 December 2021:					
Executive directors (note i)					
Mr. Kong (note vii)	-	-	-	-	-
Guo Lei (note ii)	-	981	1,062	32	2,075
Xu Jianjun (note vii)	-	-	-	-	-
Yang Shufeng	-	268	656	25	949
Sub-total	-	1,249	1,718	57	3,024
Independent non-executive directors (note iv)					
Mr. Liu Fengyuan	-	100	-	-	100
Mr. Ma Changcheng	-	100	-	-	100
Mr. Ding Xiaodong	-	100	-	-	100
Sub-total	-	300	-	-	300
Non-executive director (note v)					
Mrs. Zhao Xuelian	-	-	-	-	-
Sub-total	-	-	-	-	-
Total					<u>3,324</u>

Note i: The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Note ii: Guo Lei is also the Chief Executive Officer and Chairman of the Group.

Note iii: Wang Ning was appointed as Executive director on 1 August 2022.

Note iv: The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Note v: The non-executive directors' emoluments shown above were for her service as directors of the Company.

Note vi: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

Note vii: Mr. Kong resigned on 1 August 2022 and Xu Jianjun resigned on 1 April 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS — *continued*

(a) Directors' and chief executive's emoluments — *continued*

During both years, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during both years.

(b) Employees' emoluments

Two (2021: two) of the executive director of the Company were the five highest paid individual during the year. The emoluments of the remaining three (2021: three) highest paid individuals during the year, were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	981	1,061
Discretionary bonus (note)	1,922	1,833
Contributions to retirement benefit schemes	122	72
	<u>3,025</u>	<u>2,966</u>

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

The number of the highest paid employees who are not directors nor the chief executive officer of the Company have their emoluments within the following band:

	2022	2021
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>3</u>	<u>3</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

7. OTHER INCOME/OTHER GAINS AND LOSSES

	2022 RMB'000	2021 RMB'000
Other income		
Government grant (note i)	4,107	26,219
Bank interest income	256	396
	<u>4,363</u>	<u>26,615</u>
	2022 RMB'000	2021 RMB'000
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 (note ii)	(7,697)	596
Fair value losses on derivative financial instruments (note iii)	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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

	2022 RMB'000	2021 RMB'000
Impairment losses recognised (reversed) on:		
– trade receivables	6,167	1,924
– contract assets	(1,070)	644
	<u>5,097</u>	<u>2,568</u>

Details of impairment assessment are set out in note 17.

9. FINANCE COSTS

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

10. PROFIT BEFORE TAXATION

	2022 RMB'000	2021 RMB'000
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	1,880	1,980
Directors' emoluments (note 6)	4,248	3,324
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)	<u>2,169</u>	<u>594</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

11. TAXATION CHARGE

	2022 RMB'000	2021 RMB'000
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	<u>(2,311)</u>	<u>495</u>
Deferred tax charge (note 15)		
– Current year	<u>2,461</u>	<u>4,800</u>
Taxation charge	<u><u>14,461</u></u>	<u><u>14,845</u></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 are not subject to income tax in the Cayman Islands or any other jurisdiction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

11. TAXATION CHARGE — *continued*

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 RMB'000	2021 RMB'000
Profit before taxation	153,251	130,134
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 (note a)	(18,753)	(15,314)
Additional deduction of machinery and equipment Procurement (note b)	(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	(7,137)	(7,654)
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

12. DIVIDEND

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

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 of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

13. EARNINGS PER SHARE

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

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>
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14. PROPERTY, PLANT AND EQUIPMENT

	Right- of-use assets RMB'000	Construction in progress RMB'000	Buildings RMB'000	Electronic equipment RMB'000	Machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Software RMB'000	Total RMB'000
COST									
At 1 January 2021	52,901	8	122,139	8,059	155,480	7,991	5,657	3,624	355,859
Additions	11,977	170,964	54	942	13,303	868	1,054	-	199,162
Disposals	(2,411)	-	-	(249)	(290)	(25)	-	-	(2,975)
Transfer	88,095	(88,181)	-	-	-	-	-	86	-
At 31 December 2021	150,562	82,791	122,193	8,752	168,493	8,834	6,711	3,710	552,046
Additions	779	41,568	-	925	10,893	137	640	-	54,942
Disposals	-	-	-	(122)	(3,125)	(93)	(395)	-	(3,735)
Transfer	603	(121,764)	40,987	8,146	66,340	897	4,634	157	-
At 31 December 2022	<u>151,944</u>	<u>2,595</u>	<u>163,180</u>	<u>17,701</u>	<u>242,601</u>	<u>9,775</u>	<u>11,590</u>	<u>3,867</u>	<u>603,253</u>
ACCUMULATED DEPRECIATION									
At 1 January 2021	8,688	-	35,059	3,082	66,465	3,244	1,033	870	118,441
Provided for the year	4,153	-	6,365	2,543	13,544	250	200	1,193	28,248
Eliminated on disposals	(2,411)	-	-	(237)	(275)	(24)	-	-	(2,947)
At 31 December 2021	10,430	-	41,424	5,388	79,734	3,470	1,233	2,063	143,742
Provided for the year	6,284	-	7,532	3,549	17,160	396	2,176	1,238	38,335
Eliminated on disposals	-	-	-	(44)	(464)	(35)	(160)	-	(703)
At 31 December 2022	<u>16,714</u>	<u>-</u>	<u>48,956</u>	<u>8,893</u>	<u>96,430</u>	<u>3,831</u>	<u>3,249</u>	<u>3,301</u>	<u>181,374</u>
CARRYING AMOUNTS									
At 31 December 2022	<u>135,230</u>	<u>2,595</u>	<u>114,224</u>	<u>8,808</u>	<u>146,171</u>	<u>5,944</u>	<u>8,341</u>	<u>566</u>	<u>421,879</u>
At 31 December 2021	<u>140,132</u>	<u>82,791</u>	<u>80,769</u>	<u>3,364</u>	<u>88,759</u>	<u>5,364</u>	<u>5,478</u>	<u>1,647</u>	<u>408,304</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14. PROPERTY, PLANT AND EQUIPMENT – *continued*

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Buildings	3.8% to 9.5%
Electronic equipment	9.5% to 31.7%
Machinery	6.3% to 19%
Office and other equipment	9.5% to 19%
Motor vehicles	9.5% to 19%
Right-of-use assets	Over lease terms
Software	20% to 33.3%

The buildings are situated on the land use rights in the PRC.

The Group has pledged buildings with the carrying amount of RMB54,087,000 (2021: RMB67,465,000) to secure general banking facilities granted to the Group.

The carrying amounts of right-of-use assets at the end of each reporting period and the depreciation by classes of right-of-use assets are set out as below:

	2022 RMB'000	2021 RMB'000
Carrying amounts		
Land	127,791	129,971
Plant	7,439	10,161
	<u>135,230</u>	<u>140,132</u>
Depreciation recognised in profit or loss		
Land	2,783	1,598
Plant	3,501	2,555
	<u>6,284</u>	<u>4,153</u>
Total cash outflow for leases	<u>3,630</u>	<u>3,076</u>

The Group has pledged rights-of-use assets with the carrying amount of RMB40,826,000 (2021: RMB42,462,000) to secure general banking facilities granted to the Group respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

14. PROPERTY, PLANT AND EQUIPMENT — *continued*

In addition, lease liabilities of RMB7,449,000 (2021: RMB9,923,000) are recognised with related right-of-use assets of RMB7,439,000 (2021: RMB10,161,000) as at 31 December 2022. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

15. DEFERRED TAX

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2022 RMB'000	2021 RMB'000
Deferred tax assets	5,727	1,911
Deferred tax liabilities	<u>(14,143)</u>	<u>(7,866)</u>
	<u><u>(8,416)</u></u>	<u><u>(5,955)</u></u>

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Impairment losses of trade receivables and contract assets RMB'000	Impairment losses of inventories RMB'000	Accelerated tax depreciation RMB'000	Withholding tax on dividend reinvestment RMB'000	Distributable profits of PRC subsidiaries RMB'000	Tax loss RMB'000	Conditional government grant received RMB'000	Total RMB'000
At 1 January 2021	1,437	99	(2,691)	-	-	-	-	(1,155)
Credit (charge) to profit or loss	<u>385</u>	<u>(10)</u>	<u>(1,095)</u>	<u>(4,080)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,800)</u>
At 31 December 2021	1,822	89	(3,786)	(4,080)	-	-	-	(5,955)
Credit (charge) to profit or loss	<u>658</u>	<u>184</u>	<u>(3,877)</u>	<u>-</u>	<u>(2,400)</u>	<u>1,574</u>	<u>1,400</u>	<u>(2,461)</u>
At 31 December 2022	<u><u>2,480</u></u>	<u><u>273</u></u>	<u><u>(7,663)</u></u>	<u><u>(4,080)</u></u>	<u><u>(2,400)</u></u>	<u><u>1,574</u></u>	<u><u>1,400</u></u>	<u><u>(8,416)</u></u>

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB465 million (2021: RMB389 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

15. DEFERRED TAX – *continued*

At the end of the reporting period, the Group has unused tax losses of approximately RMB10,499,000 (2021: Nil) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB10,499,000 (2021: Nil) of such losses which were tax losses arising from the PRC and can be carried forward up to ten years from the year in which the loss was originated to offset future taxable profits.

16. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	124,682	121,627
Work in progress	19,549	10,558
Finished goods	105,247	156,012
	<u>249,478</u>	<u>288,197</u>

17. TRADE RECEIVABLES

	2022 RMB'000	2021 RMB'000
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 RMB'000	2021 RMB'000
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	7,763	9,566
	<u>340,064</u>	<u>266,208</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

17. TRADE RECEIVABLES – *continued*

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.

Internal credit rating	Description	Trade receivables/ contract assets
Group A	The counterparty has a low risk of default based on historical repayment records and does not have any past-due amounts	Lifetime ECL – not credit-impaired
Group B	The counterparty usually settles within 50 days after due dates	Lifetime ECL – not credit-impaired
Group C	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or the counterparty delays its payment after 50 days after due dates	Lifetime ECL – not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

17. TRADE RECEIVABLES — *continued*

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix within lifetime ECL (not credit-impaired).

Internal credit rating	Average loss rate		As at 31 December 2022		As at 31 December 2021	
			Gross carrying amounts of trade receivables	Gross carrying amounts of contract assets	Gross carrying amounts of trade receivables	Gross carrying amounts of contract assets
			RMB'000	RMB'000	RMB'000	RMB'000
Group A	0.055%	0.011%	170,852	19,614	154,409	10,585
Group B	3.833%	3.659%	118,405	1,603	75,265	3,478
Group C	16.507%	15.295%	66,356	6,901	46,401	14,077
Group D	100.000%	100.000%	485	—	—	—
			<u>356,098</u>	<u>28,118</u>	<u>276,075</u>	<u>28,140</u>

The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The contract assets have the same risk characteristics as the trade receivables for the same type of contracts would apply the same internal credit rating and loss rate. The grouping is regularly reviewed by management of the Group to ensure relevant information about specific debtors and contract assets is updated.

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB75,554,000 (2021: RMB45,541,000) which are past due as at the reporting date. Out of the past due balances, RMB30,434,000 (2021: RMB15,773,000) has been past due 50 days or more and is not considered impaired. With reference to the historical records, past experience and also available reasonable and supportive forward-looking information to those customers, the management of the Group does not consider these receivables as credit-impaired as these customers have a good business relationship and satisfactory settlement history.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

17. TRADE RECEIVABLES — *continued*

Movement in the allowance for impairment loss of trade receivables and contract assets:

	Trade receivables under lifetime ECL (not credit- impaired) RMB'000	Trade receivables under lifetime ECL (credit- impaired) RMB'000	Contract assets under lifetime ECL (not credit- impaired) RMB'000
As at 1 January 2021	7,943	–	1,637
Changes due to financial instruments recognised as at 1 January:			
– Impairment recognised	–	–	–
– Impairment reversed	(6,218)	–	(308)
New financial assets originated	8,142	–	952
As at 31 December 2021	9,867	–	2,281
Changes due to financial instruments recognised as at 1 January:			
– Transfer to credit-impaired	(485)	485	–
– Impairment recognised	–	–	–
– Impairment reversed	(7,986)	–	(1,889)
New financial assets originated	14,153	–	819
As at 31 December 2022	15,549	485	1,211

18. TRADE RECEIVABLES BACKED BY BILLS

	2022 RMB'000	2021 RMB'000
Trade receivables backed by bills	12,028	62,715

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

18. 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.

	2022 RMB'000	2021 RMB'000
0 – 180 days	9,819	60,542
181 days – 1 year	2,209	2,173
	<u>12,028</u>	<u>62,715</u>

As at 31 December 2022, the Group pledged trade receivables backed by bills amounted to RMB2,112,000 (2021: RMB2,000,000) to secure general banking facilities granted to the Group.

Impairment assessment on trade receivables backed by bills subject to ECL model

The Group assessed the trade receivables backed by bills on lifetime ECL basis. The management of the Group believes that those bills are issued by the banks with high credit ratings assigned by international credit-rating agencies and the Group considers that the risk of default over trade receivables backed by bills is regard as low and lifetime ECL is insignificant at the end of the reporting period.

19. TRANSFERS OF FINANCIAL ASSETS

The following were the trade receivables backed by bills as at the end of the report period that were transferred to suppliers by endorsing these trade receivables backed by bills on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these trade receivables backed by bills, it continues to recognise the full carrying amount of the trade receivables backed by bills and the payables to suppliers. These financial assets are carried at amortised cost in the consolidated statement of financial position.

	2022 RMB'000	2021 RMB'000
Carrying amount of transferred assets	2,490	44,333
Carrying amount of associated liabilities	(2,490)	(44,333)
Net position	<u>-</u>	<u>-</u>

All the trade receivables backed by bills transferred to suppliers of the Group have a maturity date of less than one year from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

20. CONTRACT ASSETS

	2022 RMB'000	2021 RMB'000
Retention receivables on sales of pipe products	28,118	28,140
Less: allowance for impairment loss	<u>(1,211)</u>	<u>(2,281)</u>
	<u>26,907</u>	<u>25,859</u>

As at 1 January 2021, contract assets amounted to RMB18,644,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed under the relevant contracts, and their rights are conditioned on the factors other than passage of time. The contract assets are transferred to trade receivables when the such rights become unconditional other than passage of time.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

The Group typically agrees to a retention period ranging from 6 to 24 months for 5% or 10% of the contract value with certain customers in accordance with the terms specified in the relevant contracts.

The retention receivables, net of allowance for impairment loss to be settled, based on the completion of defect liability period, at the end of the reporting period as follows:

	2022 RMB'000	2021 RMB'000
Within one year	18,924	16,947
Over one year	<u>7,983</u>	<u>8,912</u>
	<u>26,907</u>	<u>25,859</u>

Details of the impairment assessment on contract assets subject to ECL model disclosed in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Advance payment for materials	109,270	58,276
Other tax recoverable	6,157	9,064
Deposits paid to suppliers	4,597	5,393
Prepayments	850	515
Other receivables	511	853
	<u>121,385</u>	<u>74,101</u>

Impairment assessment on deposits and other receivables subject to ECL model

The management of the Group measures the loss allowance equal to 12-month ECL on deposits and other receivables based on historical settlement records, past experience and also available reasonable and supportive forward-looking information. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. ECL on deposits and other receivables is insignificant as the exposure of deposits and other receivables is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

22. 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 are as follows:

	2022 RMB'000	2021 RMB'000
Meide Group Co., Ltd. (“Meide”)	4,936	2,780
Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 (“Linyi Meide”) (note)	681	644
Jinan Kede Intelligent Technology Co., Ltd. 濟南科德智能科技有限公司 (“Kede Intelligent”) (note)	706	–
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)	343	578
Jinan Mech Valve Technology Co., Ltd. 濟南邁克閥門科技有限公司 (“Mech Valve”) (note)	176	455
Jinan Mech Crafts Co., Ltd. 濟南邁克工藝品有限公司 (“Mech Crafts”) (note)	169	52
Meide Archung (Hebi) Tube Co., Ltd. 玫德雅昌(鶴壁)管業有限公司 (“Meide Archung”) (note)	136	114
Meide (Shandong) New Energy Co., Ltd. 玫德(山東)新能源有限公司 (“Meide New Energy”) (note)	123	–
Shandong Chenhui Electronic Technology Co., Ltd. 山東晨暉電子科技有限公司 (“Chenhui Electronic”) (note)	42	–
Meide Archung (Jinan) Tube Co., Ltd. 玫德雅昌(濟南)管業有限公司 (“Meide Archung (Jinan)”) (note)	5	–
玫德雅昌集團有限公司 Meide Archung Group Co. Ltd. (“Meide Archung Group”) (note)	1	–
	<u>7,318</u>	<u>4,623</u>

Note: Subsidiaries of Meide.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

22. 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.

	2022 RMB'000	2021 RMB'000
0 – 60 days	4,715	3,841
61 – 180 days	1,923	267
181 – 360 days	566	515
Over 1 year	114	–
	<u>7,318</u>	<u>4,623</u>

As at 31 December 2022, included in the Group's amounts due from related parties balance are debtors with aggregate carrying amount of RMB680,000 (2021: RMB515,000) which are past due as at the reporting date. The Group did not hold any collateral over these balances.

Impairment assessment on amounts due from related parties subject to ECL model

The Group assessed the amounts due from related parties on simplified ECL basis. The management of the Group considers the risk of default by counterparty is insignificant based on the exposure of amounts due from related parties at the end of the reporting period, their understanding on the financial position, continuous settlement record of the counterparty and forward-looking information (such as current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the steel industry) that is available without undue cost or effort and thus the ECL on the balance is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

22. AMOUNTS DUE FROM RELATED PARTIES/TO RELATED PARTIES – *continued*

Amounts due to related parties

Details of amounts due to related parties which are trade nature, unsecured, interest-free are stated as follows:

	2022 RMB'000	2021 RMB'000
Siam Fittings Co., Ltd. 泰鋼管配件有限公司 (“Siam Fittings”) (note)	2,163	393
Kede Intelligent	1,842	–
Meide	384	53
Meide Archung (Jinan)	190	–
Meide Ayvaz Metal Products Co., Ltd. 玫德艾瓦茲(濟南)金屬制品有限公司 (“Ayvaz Metal”) (note)	116	208
Mech Valve	81	36
Intercom Technology (Shandong) Co. 信通科技(山東)有限公司 (“Information Technology”) (note)	40	–
	<u>4,816</u>	<u>690</u>

Note: Subsidiary of Meide.

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:

	2022 RMB'000	2021 RMB'000
0 – 60 days	4,794	690
61 – 180 days	22	–
	<u>4,816</u>	<u>690</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

23. FINANCIAL ASSETS AT FVTPL

	2022 RMB'000	2021 RMB'000
Foreign currency forward contracts (Note i)	1,423	467
Commodity derivative contracts (Note ii)	93	409
	<u>1,516</u>	<u>876</u>

Notes:

- (i) During the year ended 31 December 2022 and 31 December 2021, the Group entered into US\$ to RMB net-settled foreign currency forward contracts with banks in the PRC in order to manage the Group's currency risk. The notional principal amounts are US\$4,500,000 in aggregate (2021: US\$2,340,000). The future rates for conversion of US\$ to RMB are ranged from 7.3100 to 6.3200 (2021: 6.3710 to 6.5836). The duration of these foreign currency forward contracts was ranged from one month to one year.
- (ii) During the year ended 31 December 2022 and 31 December 2021, the net-settled commodity derivative contract was entered into by the Group through Shanghai Futures Exchange for the purpose of reducing its exposure to commodity price risk. The commodity derivative contract was not accounted for under hedge accounting.

Major terms of the commodity derivative contracts outstanding as at 31 December 2022 were set out below:

Contract price	Standard trading unit	Total unit	Maturity date
Steel commodity derivative contract:			
Buying at price of RMB4,043 per ton	10 tones	100	May 2023

Major terms of the commodity derivative contracts outstanding as at 31 December 2021 were set out below:

Contract price	Standard trading unit	Total unit	Maturity date
Steel commodity derivative contract:			
Buying at price of RMB4,356 per ton	10 tones	30	March 2022
Buying at price of RMB4,590 per ton	10 tones	70	May 2022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

24. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2022 RMB'000	2021 RMB'000
Pledged bank deposits (note i)	33,510	5,740
Cash and cash equivalents (note ii)	57,760	86,548
	<u>91,270</u>	<u>92,288</u>

Notes:

- (i) Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits carried interest at prevailing market rate of an average interest rate is 1.46% (2021: 1.64%) per annum.
- (ii) Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with original maturities of three months or less. Short-term bank deposits are made for various periods ranging from 1 to 3 months depending on the immediate cash requirements of the Group. The cash and cash equivalents carried interest at prevailing market rate which range from 0.25% to 1.65% (2021: 0.3% to 1.65% per annum).

25. TRADE AND BILL PAYABLES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

25. 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:

	2022 RMB'000	2021 RMB'000
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
	<u>73,414</u>	<u>91,391</u>

26. CONTRACT LIABILITIES

The amounts consist of advance payments from customers for goods. The amounts of contract liabilities as at 1 January 2021 and 31 December 2021, which are RMB46,640,000, and RMB41,808,000, were recognised as revenue during the years ended 31 December 2021 and 2022.

27. REFUND LIABILITIES

	2022 RMB'000	2021 RMB'000
Arising from retrospective volume rebates to customers	<u>10,600</u>	<u>13,412</u>

The refund liability relates to volume rebates to the customers and a corresponding adjustment to revenue is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

28. OTHER PAYABLES AND ACCRUED CHARGES

	2022 RMB'000	2021 RMB'000
Staff costs payable	20,669	15,954
Other tax payable	10,154	8,663
Transportation cost payable	2,361	4,536
Deposits received from suppliers	7,204	3,576
Guarantee receipts from staff on trade receivables (note)	7,858	6,482
Conditional government grant received	–	3,917
Accrued charges	30,213	14,138
Agency fee payable	2,884	3,704
	<u>81,343</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.

29. BORROWINGS

	2022 RMB'000	2021 RMB'000
Secured bank borrowings (note a)	17,946	95,107
Unsecured bank borrowings (note b)	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.

Details of assets pledged by the Group at the end of each reporting period are set out in note 35.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

30. LEASE LIABILITIES

	2022 RMB'000	2021 RMB'000
Lease liabilities payable:		
– within one year	3,541	3,283
– more than one year but not exceeding two years	993	3,158
– more than two years but not exceeding five years	<u>2,915</u>	<u>3,482</u>
	7,449	9,923
Less: Amount due for settlement with 12 months shown under current liabilities	<u>3,541</u>	<u>3,283</u>
Amounts due for settlement after 12 months shown under non-current liabilities	<u><u>3,908</u></u>	<u><u>6,640</u></u>

The Group leased a property to operate its factory and the lease liabilities were measured at the present value of the lease payments that are not yet paid. The lease liabilities were secured by rental deposit of RMB523,000 (2021: RMB523,000).

The weighted average incremental borrowing rates applied to lease liabilities is 4.32% (2021: 4.35%).

31. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Conditional government grants	12,867	–
Less: Current portion	<u>1,388</u>	<u>–</u>
Non-current portion	<u><u>11,479</u></u>	<u><u>–</u></u>

The deferred income represent conditional government grants towards the cost of construction of the Group's electronic plant. The amount is transferred to income over the useful lives of the relevant assets. As at 31 December 2022, an amount of RMB12,867,000 remains to be amortised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

32. 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 US\$	US\$'000	RMB equivalent amount RMB'000
Ordinary Shares of US\$0.0001 each				
Authorised:				
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>500,000,000</u>	<u>50,000</u>	<u>50</u>	<u>335</u>
Issued and fully paid:				
At 1 January 2021, 31 December 2021 and 31 December 2022	<u>433,800,000</u>	<u>43,380</u>	<u>43</u>	<u>304</u>

33. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group also participates in the Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employee.

The contributions to the retirement benefits scheme of the Group during the year are disclosed in notes 6 and 10, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant transactions with its related parties during the year ended 31 December 2022 and 2021:

Name of relate companies	Nature of transactions	2022 RMB'000	2021 RMB'000
Meide	Sales of pipe products	28,536	32,076
	Sales of scrap materials	23,144	22,519
	Purchase of inventories	1,643	194
Linyi Meide Gengchen	Sales of pipe products	985	619
Linyi Meide	Sales of pipe products	600	1,834
	Sales of scrap materials	17	–
Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 ("Meiyuan Renewable") (note i)	Sales of scrap materials	1,463	–
Mech Valve	Sales of pipe products	153	422
	Purchase of inventories	327	148
Mech Crafts	Sales of pipe products	351	216
	Purchase of inventories	44	32
Kede Intelligent	Sales of pipe products	1,620	245
	Sales of scrap materials	5	24
	Purchase of inventories	6,327	411
Meide Group Weihai Co., Ltd. 玫德集團威海有限公司 ("Meide Weihai") (note i)	Sales of pipe products	93	1,273
	Sales of scrap materials	5	–
Meide New Energy	Purchase of inventories	2,007	–
	Sales of pipe products	676	–
Meide Archung	Sales of pipe products	22	367
	Purchase of inventories	2,358	–
Meide Archung Group	Purchase of inventories	9	–
	Sales of pipe products	1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

34. RELATED PARTY TRANSACTIONS — *continued*

Name of relate companies	Nature of transactions	2022 RMB'000	2021 RMB'000
Meide Archung (Jinan)	Sales of pipe products	14	—
	Purchase of inventories	190	—
Information Technology	Purchase of inventories	36	—
Chenhui Electronic	Sales of pipe products	89	—
Ayvaz Metal	Sales of pipe products	6	95
	Purchase of inventories	164	179
Siam Fittings	Interest expenses on lease liabilities	140	171
	Lease liabilities (note ii)	2,229	4,362
	Purchase of inventories	<u>2,076</u>	<u>646</u>

Notes:

- i. Subsidiary of Meide.
- ii. During the year ended 31 December 2021, the Group entered into a new lease agreement for the use of plants with Siam Fittings for 2.75 years. The Group has recognised an addition of right-of-use asset and lease liability amounted to RMB4,609,000 and RMB4,362,000 respectively.

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

Compensation of key management personnel

During the year ended 31 December 2022, the remuneration of directors of the Company and other members of key management were as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other benefits	3,455	3,443
Discretionary bonus	4,276	4,483
Contributions to retirement benefit schemes	<u>361</u>	<u>201</u>
	<u>8,092</u>	<u>8,127</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

35. 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 RMB'000	2021 RMB'000
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
	<u>130,535</u>	<u>117,667</u>

36. CAPITAL COMMITMENTS

	2022 RMB'000	2021 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	<u>1,718</u>	<u>23,586</u>

37. CAPITAL RISK MANAGEMENT

Management of the Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Group, comprising share capital and reserves.

Management of the Group reviews the capital structure on an on-going annual basis. As part of this review, management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management of the Group, the Group will balance its overall capital structure through the payment of dividends, new issue of share as well as the issue of new debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Financial assets at FVTPL		
– Foreign currency forward contracts	1,423	467
– Commodity derivative contracts	93	409
Financial assets at amortised cost	<u>455,788</u>	<u>432,080</u>
Financial liabilities		
Amortised cost	232,586	305,861
Lease liabilities	<u>7,449</u>	<u>9,923</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, trade receivables backed by bills, deposits and other receivables, financial assets at FVTPL, pledged bank deposits, cash and cash equivalents, amounts due from related parties/to related parties, trade and bill payables, other payables and accrued charges, refund liabilities, borrowings and lease liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and lease liabilities (notes 29 and 30). The Group is also exposed to cash flow interest rate risk in relation to its pledged bank deposits, bank balances and variable-rate bank borrowings (notes 24 and 29).

The Group currently does not have interest rate hedging policy. However, management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Market risk – continued

Interest rate risk – continued

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank borrowings. The analysis is prepared assuming the variable-rate bank borrowings at the end of each reporting period were outstanding for the whole year and 50 basis points increase or decrease are used. The pledged bank deposits and bank balance are excluded from the sensitivity analysis as the management of the Group considers that the interest rate fluctuation is not significant.

There were no variable-rate bank borrowings as at 31 December 2021 and 31 December 2022.

Foreign currency risk

Certain bank balances, other receivables, trade receivables and trade payables are denominated in US\$ and HK\$, the currency other than the functional currency of the respective group entities, at end of each reporting period.

The Group currently does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's US\$ and HK\$ denominated monetary assets and monetary liabilities at the end of the reporting period as follows:

	2022		2021	
	US\$ RMB'000	HK\$ RMB'000	US\$ RMB'000	HK\$ RMB'000
Cash and cash equivalents	47,721	2	28,297	6,349
Other receivables	1,547	–	1,025	–
Trade receivables	<u>93,905</u>	<u>–</u>	<u>85,697</u>	<u>–</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS — *continued*

(b) Financial risk management objectives and policies — *continued*

Market risk — continued

Foreign currency risk — continued

Sensitivity analysis

Sensitivity analysis of strengthening 5% (2021: 5%) in functional currency of the Group (i.e. RMB) against US\$ and HK\$ resulted a decrease in post-tax profit of RMB5,848,000 and RMB Nil (2021: RMB4,909,000 and RMB265,000) respectively. For a 5% weakening of RMB against US\$ and HK\$, there would be an equal and opposite impact on the results.

5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position at the end of each reporting period. The Group does not have any collateral or other credit enhancements to cover its credit risks associated with financial assets.

The Group's credit risk is primarily attributable to its trade receivables, trade receivables backed by bills, deposits and other receivables, amounts due from related parties, pledged bank deposits and cash and cash equivalents. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. 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. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group has applied the simplified approach to measure the loss allowance on trade receivables, contract assets and trade related amounts due from related parties at lifetime ECL as disclosed in notes 17 and 22 based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS – *continued*

(b) Financial risk management objectives and policies – *continued*

Credit risk – continued

The credit risk on trade receivables backed by bills are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised.

At 31 December 2022, the Group had a concentration of credit risk as the largest customer and the top five trade debtors accounted for approximately 10.28% and 32.62% (2021: 10.35% and 34.72%) of its total trade receivables. Management of the Group regularly visits these customers to understand their business operations and cash flows position and follows up the subsequent settlement from the counterparties. In this regard, management of the Group considers that this credit concentration risk has been significantly mitigated.

For deposits and other receivables, management of the Group makes periodic collective assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. The Group recognises the 12-month ECL on deposits and other receivables, and there was no significant increase in credit risk on other receivables.

The Group have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balance, time deposits and pledged bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and 12-month ECL is insignificant.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance its operations and mitigates the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS — *continued*

(b) Financial risk management objectives and policies — *continued*

Liquidity risk — continued

The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Effective interest rate %					Total	Total
		On demand	1-3 months	4-12 months	1-5 years	undiscounted	carrying
		RMB'000	RMB'000	RMB'000	RMB'000	cash flow RMB'000	amount RMB'000
As at 31 December 2022							
Non-derivative financial liabilities and lease liabilities							
Trade and bill payables	N/A	90,704	-	-	-	90,704	90,704
Refund liabilities	N/A	10,600	-	-	-	10,600	10,600
Other payables and accrued charges	N/A	50,520	-	-	-	50,520	50,520
Amounts due to related parties	N/A	4,816	-	-	-	4,816	4,816
Fixed-rate bank borrowings	3.76	-	68,435	8,203	-	76,638	75,946
Lease liabilities	4.32	-	1,110	2,521	5,467	9,098	7,449
		<u>156,640</u>	<u>69,545</u>	<u>10,724</u>	<u>5,467</u>	<u>242,376</u>	<u>240,035</u>
As at 31 December 2021							
Non-derivative financial liabilities and lease liabilities							
Trade and bill payables	N/A	92,971	-	-	-	92,971	92,971
Refund liabilities	N/A	13,412	-	-	-	13,412	13,412
Other payables and accrued charges	N/A	32,436	-	-	-	32,436	32,436
Amounts due to related parties	N/A	690	-	-	-	690	690
Fixed-rate bank borrowings	4.02	-	97,659	71,024	-	168,683	166,352
Lease liabilities	4.35	-	840	2,521	7,469	10,830	9,923
		<u>139,509</u>	<u>98,499</u>	<u>73,545</u>	<u>7,469</u>	<u>319,022</u>	<u>315,784</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

38. FINANCIAL INSTRUMENTS – continued

(c) Fair value measurement

The following provides information about how the Group determines fair value of various financial assets and financial liabilities.

Fair value measurement of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair values at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liability are determined (in particular, the valuation technique(s) and inputs used).

Financial assets and liability	Fair value as at 31.12.2022	Fair value 31.12.2021	Fair value hierarchy	Basis of fair value measurement	Significant unobservable input	Relationship of unobservable inputs to fair value
Assets						
Commodity derivative contracts at FVTPL	RMB93,000	RMB409,000	Level 1	Quoted bid prices in an Shanghai Futures Exchange	N/A	N/A
Foreign currency forward contracts at FVTPL	RMB1,423,000	RMB467,000	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements at the end of each reporting period approximate their fair values.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

39. MOVEMENT ON GROUP'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities RMB'000	Borrowings RMB'000	Total
At 1 January 2021	814	64,078	64,892
Interest expenses	208	5,034	5,242
Financing cash flows	(3,076)	97,240	94,164
New leases entered	11,977	–	11,977
At 31 December 2021	9,923	166,352	176,275
Interest expenses	377	4,954	5,331
Financing cash flows	(3,630)	(95,360)	(98,990)
New leases entered	779	–	779
At 31 December 2022	7,449	75,946	83,395

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at the date of this report are as follows:

Name of subsidiaries	Place and the date of incorporation/ establishment	Place of operation	Issued and fully paid capital/ registered capital	Shareholding/ equity interest attributable to owners of the Company at 31 December		Principal activities
				2022	2021	
Directly held:						
Guan Dao Investments Limited	The BVI 3 January 2019	BVI	US\$1	100%	100%	Investment holding
Indirectly held:						
Jinan Mech	PRC 21 May 2013	PRC	RMB395,980,000	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and prefabricated steel pipes
Jinan Ma Steel	PRC 13 October 2001	PRC	RMB400,000,000	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and prefabricated steel pipes
Tube Industry	Hong Kong 23 January 2019	Hong Kong	HK\$10,000	100%	100%	Investment holding
Viet Nam Piping	Vietnam 7 January 2019	Vietnam	US\$2,000,000	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and prefabricated steel pipes
Shandong Mech Supply Chain Management Co., Ltd.	PRC 1 September 2020	PRC	RMB3,000,000	100%	100%	Trading steel coils
Shandong Mech Intelligent Technology Co., Ltd	PRC 25 December 2020	PRC	RMB20,000,000	100%	100%	Project construction
Delta Electric	Thailand 13 January 2021	Thailand	THB100,000,000	71%	71%	Manufacturing and sales of pipe nipples and prefabricated steel pipes
Jinan Mech Economic and Trade Co., Ltd	PRC 20 January 2022	PRC	RMB3,000,000.00	100%	100%	Warehouse handling service

None of the subsidiaries had issued any debt securities at the end of the year.

Note: All of the PRC subsidiaries are companies registered as limited liability companies under the PRC law, except for Jinan Mech which is registered as a wholly-foreign owned enterprise with limited liability under the PRC law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2022 RMB'000	2021 RMB'000
Non-current asset		
Investment in a subsidiary	<u>189,737</u>	<u>189,737</u>
Current asset		
Cash and cash equivalents	<u>448</u>	<u>1,898</u>
	<u>448</u>	<u>1,898</u>
Current liability		
Amount due to a subsidiary	<u>24,321</u>	<u>24,321</u>
	<u>24,321</u>	<u>24,321</u>
Net current liabilities	<u>(23,873)</u>	<u>(22,423)</u>
Net assets	<u>165,864</u>	<u>167,314</u>
Capital and reserves		
Share capital	304	304
Reserves	<u>165,560</u>	<u>167,010</u>
Total equity	<u><u>165,864</u></u>	<u><u>167,314</u></u>

Movement in the Company's reserves

	Share premium and other reserve RMB'000	Capital reserve RMB'000	Accumulated (losses) profits RMB'000	Total RMB'000
At 31 December 2020	199,478	4,523	(35,521)	168,480
Profit and total comprehensive income for the year	–	–	41,846	41,846
Dividends recognised as distribution	<u>(36,629)</u>	<u>–</u>	<u>(6,687)</u>	<u>(43,316)</u>
At 31 December 2021	162,849	4,523	(362)	167,010
Profit and total comprehensive income for the year	–	–	35,649	35,649
Dividends recognised as distribution	<u>(37,099)</u>	<u>–</u>	<u>–</u>	<u>(37,099)</u>
At 31 December 2022	<u><u>125,750</u></u>	<u><u>4,523</u></u>	<u><u>35,287</u></u>	<u><u>165,560</u></u>

SUMMARY FINANCIAL INFORMATION

A summary of the results and assets and liabilities of the Group for the last five financial years is as follows.

RESULT

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	<u>2,107,290</u>	<u>1,776,028</u>	<u>1,255,139</u>	<u>1,125,281</u>	<u>1,214,839</u>
Profit before taxation	153,251	130,134	104,224	104,123	119,415
Taxation charge	<u>(14,461)</u>	<u>(14,845)</u>	<u>(4,697)</u>	<u>(14,450)</u>	<u>(17,944)</u>
Profit for the year	<u>138,790</u>	<u>115,289</u>	<u>99,527</u>	<u>89,673</u>	<u>101,471</u>

ASSETS AND LIABILITIES

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	1,282,453	1,228,336	998,645	1,011,197	808,049
Total liabilities	<u>342,570</u>	<u>(395,988)</u>	<u>(243,219)</u>	<u>(353,855)</u>	<u>(429,517)</u>
Net assets	<u>939,883</u>	<u>832,348</u>	<u>755,426</u>	<u>657,342</u>	<u>378,532</u>