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中國管業集團有限公司 China Pipe Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00380)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board of directors (the “Board”) of China Pipe Group Limited (the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2023, together with the comparative figures for the corresponding period in 2022, are as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2023

	Note	Unaudited	
		For the six months ended 30 June	
		2023	2022
		HK\$'000	HK\$'000
Revenue	2	341,260	322,004
Cost of sales	4	(247,396)	(226,790)
Gross profit		93,864	95,214
Other gains, net	3	1,991	2,217
Selling and distribution costs	4	(10,881)	(9,468)
General and administrative expenses	4	(50,576)	(48,578)
Reversal of impairment of financial assets	4	61	-
Operating profit		34,459	39,385
Finance income	5	6,075	2,447
Finance costs	5	(3,177)	(2,754)
Finance income/(costs), net	5	2,898	(307)
Profit before income tax		37,357	39,078
Income tax expense	6	(5,711)	(7,015)
Profit for the period attributable to equity holders of the Company		31,646	32,063
Earnings per share		HK cents	HK cents
Basic and diluted	7	2.38	2.41
Dividend	8	-	-

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Profit for the period	31,646	32,063
Other comprehensive loss:		
Item that may be subsequently reclassified to profit or loss:		
Currency translation differences	(274)	(402)
Other comprehensive loss for the period, net of tax	(274)	(402)
Total comprehensive income for the period, net of tax attributable to equity holders of the Company	31,372	31,661

There was no tax impact relating to the components of other comprehensive income for the six months ended 30 June 2022 and 2023.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		9,015	5,093
Right-of-use assets		80,918	91,998
Intangible assets		298	324
Loan to a related company	9	78,567	78,154
Loan to a director	9	-	5,000
Rental deposits and other assets	9	7,307	7,369
		176,105	187,938
Current assets			
Inventories		244,922	243,703
Trade receivables	9	182,467	151,481
Deposits, prepayments and other receivables	9	82,434	64,500
Financial assets at fair value through profit or loss		1,515	1,513
Tax recoverable		682	750
Pledged bank deposits		46,000	46,000
Cash and bank balances		217,239	206,487
		775,259	714,434
Total assets		951,364	902,372

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

As at 30 June 2023

	Unaudited	Audited
	30 June	31 December
	2023	2022
<i>Note</i>	HK\$'000	HK\$'000
EQUITY		
Equity holders		
Share capital	26,645	26,645
Reserves	676,398	645,026
Total equity	703,043	671,671
LIABILITIES		
Non-current liabilities		
Lease liabilities	66,193	78,124
Deferred tax liabilities	2,849	2,117
Other non-current liabilities	485	542
	69,527	80,783
Current liabilities		
Trade payables, other payables and contract liabilities	92,264	73,634
Taxation payable	2,134	26
Lease liabilities	24,112	22,905
Borrowings	60,284	53,353
	178,794	149,918
Total liabilities	248,321	230,701
Total equity and liabilities	951,364	902,372
Net current assets	596,465	564,516
Total assets less current liabilities	772,570	752,454

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated interim financial information should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Except for described below, the accounting policies adopted are consistent with those used in the audited consolidated annual financial statements for the year ended 31 December 2022.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Adoption of amendments to standards

The Group has applied the following amendments to standards for the first time for the annual reporting period commencing 1 January 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 8	Definition of Accounting Estimates
HKFRS 17 and Amendments to HKFRS 17	Insurance Contracts
Amendment to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 - Comparative Information

In the current interim period, the Group has applied for the first time the above amendments to standards issued by the HKICPA that are mandatorily effective from 1 January 2023. The adoption of the above amendments to standards do not have a material impact on the Group’s results of operations or financial position.

The Group has not early adopted any amendments to standards that have been issued but are not yet effective. The Group is assessing the impact of these amendments to standards.

2. REVENUE AND SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the chief operating decision-maker (“CODM”). Management determines the operating segments based on the Group’s internal reports, which are then submitted to the CODM for performance assessment and resources allocation.

The Executive Directors assess the performance of the operating segment based on a measure of profit before income tax and regard there to be only one operating segment – trading of construction materials, mainly pipes and fittings. Accordingly, segment disclosures are not presented.

Trading of pipes and fittings includes wholesale, retail and logistics operations substantially in Hong Kong and Macau.

The revenue from contracts with customers recognised for the six months ended 30 June 2023 and 2022 are trading of construction materials, mainly pipes and fittings, all of which were recognised at a point in time.

As 30 June 2023 and 31 December 2022, the Group has only one reportable segment. Accordingly, no segment assets and liabilities analysis is presented.

Geographical information

The Group is domiciled in Hong Kong. The Group’s revenues from external customers by geographical location are detailed below:

	Revenue Unaudited For the six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Hong Kong	299,280	283,444
Macau	38,167	37,262
Mainland China	3,813	1,298
	<u>341,260</u>	<u>322,004</u>

The Group’s non-current assets by geographical location are detailed below:

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Hong Kong	174,884	186,734
Mainland China	1,221	1,204
	<u>176,105</u>	<u>187,938</u>

3. OTHER GAINS, NET

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Net exchange gain	1,200	1,312
Loss on financial assets at fair value through profit or loss	(2)	(170)
Net gain/(loss) on disposal of property, plant and equipment	11	(91)
Dividend income from financial assets at fair value through profit or loss	37	30
Hong Kong Government grants (<i>note</i>)	745	1,136
	1,991	2,217

Note:

For the six months ended 30 June 2023, the Group received the grants under Technology Voucher Programme of Hong Kong Special Administration Region Government while for the six months ended 30 June 2022, the grants were from Employment Support Scheme under the Anti-epidemic Fund of Hong Kong Special Administration Region Government.

4. EXPENSES BY NATURE

Operating profit is arrived at after charging/(crediting):

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
Cost of inventories sold	245,847	220,392
Amortisation of intangible assets	26	26
Auditor's remuneration	639	572
Depreciation of property, plant and equipment	781	791
Depreciation of right-of-use assets	11,664	12,093
Employee benefit expenses (including directors' emoluments)	34,554	30,077
Short-term and low-value lease expenses	217	1,104
Reversal of impairment of financial assets	(61)	-
(Reversal of)/provision for and write-off of inventories, net	(2,172)	1,580
Other expenses	17,297	18,201
	308,792	284,836
Representing:		
Cost of sales	247,396	226,790
Selling and distribution costs	10,881	9,468
General and administrative expenses	50,576	48,578
Reversal of impairment of financial assets	(61)	-
	308,792	284,836

5. FINANCE (INCOME)/COSTS, NET

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	(3,838)	(287)
Other interest income	(2,237)	(2,160)
Finance income	<u>(6,075)</u>	<u>(2,447)</u>
Interest expense on bank borrowings	1,320	721
Interest expenses on lease liabilities	1,857	2,033
Finance costs	<u>3,177</u>	<u>2,754</u>
	<u>(2,898)</u>	<u>307</u>

6. INCOME TAX EXPENSE

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	4,979	6,499
Overseas tax	-	93
Deferred taxation	732	423
Income tax expense	<u>5,711</u>	<u>7,015</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the period attributable to equity holders and weighted average number of ordinary shares with adjustments where applicable as follows:

	Unaudited	
	For the six months ended 30 June	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to equity holders of the Company for the purpose of basic earnings per share	31,646	32,063
Number of shares	Thousands	Thousands
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,332,266	1,332,266

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the Company's share options. Diluted earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding for the six months ended 30 June 2023 and 2022.

8. DIVIDEND

The Board of the directors of the Company ("Board") does not declare interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
Trade receivables	183,669	152,744
Less: loss allowance	(1,202)	(1,263)
Trade receivables – net	<u>182,467</u>	<u>151,481</u>
Prepayments	77,743	57,430
Loan to a director	-	5,000
Rental deposits	6,168	6,170
Other receivables, deposits and other assets	5,860	8,299
Less: loss allowance	(30)	(30)
	<u>89,741</u>	<u>76,869</u>
Loan to a related company	78,691	78,278
Less: loss allowance	(124)	(124)
	<u>78,567</u>	<u>78,154</u>
Total of trade and other receivables, deposits and prepayments	350,775	306,504
Less: included in non-current assets		
Rental deposits and other assets	(7,307)	(7,369)
Loan to a director	-	(5,000)
Loan to a related company	(78,567)	(78,154)
Included in current assets	<u>264,901</u>	<u>215,981</u>

The Group generally grants credit period of 60 to 90 days to its customers for its trading of pipes and fittings operation. The ageing analysis of the trade receivables based on the invoice date is as follows:

	Unaudited 30 June 2023 <i>HK\$'000</i>	Audited 31 December 2022 <i>HK\$'000</i>
Within 30 days	57,698	45,076
31 to 60 days	55,150	41,297
61 to 90 days	34,786	32,333
91 to 120 days	25,278	13,574
Over 120 days	10,757	20,464
	<u>183,669</u>	<u>152,744</u>

10. TRADE PAYABLES, OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Trade payables	63,253	32,056
Contract liabilities	19,569	20,728
Accrued expenses and other payables	9,442	20,850
	<u>92,264</u>	<u>73,634</u>

The ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	Unaudited 30 June 2023 HK\$'000	Audited 31 December 2022 HK\$'000
Within 30 days	42,398	22,775
31 to 60 days	10,116	5,266
61 to 90 days	4,149	3,569
Over 90 days	6,590	446
	<u>63,253</u>	<u>32,056</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the first half of 2023, the Group's revenue amounted to around HK\$341.3 million, a 6.0% increase from the same period in 2022, where revenue was HK\$322.0 million. The profit attributable to equity holders of the Company for the six months ended 30 June 2023 was approximately HK\$31.6 million, while the same period in 2022 saw a net profit attributable to equity holders of the Company around HK\$32.1 million, representing a 1.6% decrease in profit.

The basic earnings per share for the six months ended 30 June 2023 was approximately HK2.38 cents as compared to basic earnings per share of approximately HK2.41 cents for the six months ended 30 June 2022.

Business Review

The Group is a leading provider to the construction sector offering a wide range of pipe (including copper tube, ductile iron and steel pipes) related products, fittings, comprehensive services and solutions to the contractors, designers, consultants and government agencies in Hong Kong and Macau.

As mentioned in our 2022 annual report, the Hong Kong government is keen to address the long-running housing shortage. In 2023, we saw a lot of new public and private sector projects in the pipeline, and substantial government investment in infrastructure and housing projects in the coming years. We have already embarked on sales activities and are involved in the supply chain as one of the main suppliers to support the major projects.

For the six months ended 30 June 2023, the Group's revenue amounted to HK\$341.3 million, maintaining a stable growth compared to the corresponding period of last year. This was attributable to the Group's efforts to seize the opportunities presented by the Hong Kong government's ongoing investment in housing. During the period under review, the shortage of labour and the rising prices posed challenges to the Group. It eroded our gross profit margin and our net profit decreased slightly compared to the same period last year.

Against this backdrop, the Group's revenue for the six months ended 30 June 2023 increased to HK\$341.3 million, from HK\$322.0 million recorded in the same period of 2022. The increase was mainly attributable to the Group's strong presence in Hong Kong and Macau, where we were able to supply pipes and fittings to these notable projects including the Hong Kong Three Runway System Project-North Runway Modification Works, the redevelopment of Kwai Chung Hospital and Macau Elderly Apartment.

Operation Review

The Group's selling and distribution costs increased 14.7% to HK\$10.9 million for the six months ended 30 June 2023 (corresponding period of 2022: HK\$9.5 million). The increase was mainly due to the increase in promotion and overseas travelling expenses of HK\$1.7 million which was partially offset by the decrease in sales commission and others of approximately HK\$0.3 million.

The Group's general and administrative expenses increased by 4.1% to HK\$50.6 million for six months ended 30 June 2023 (corresponding period of 2022: HK\$48.6 million). The increase was mainly due to the increase in staff costs of about HK\$4.6 million. The increase in expenses was partially offset by the decrease in professional fees, short-term and low-value lease expenses,

depreciation of right-of-use assets and consumable store expenses approximately HK\$2.6 million.

For the six months ended 30 June 2023, finance income which was mainly from a loan to a related party and bank deposits interest income, increased by 144% to HK\$6.1 million (corresponding period of 2022: HK\$2.5 million). The increase in finance income was attributable to the bank interest income increase as the saving interest rate increased. Finance costs mainly consisted of the interest expenses on bank borrowings and lease liabilities. During the period under review, the finance costs were HK\$3.2 million (corresponding period of 2022: HK\$2.8 million), representing an increase by about 14.3% over last corresponding period. Such increase was mainly attributable to the increase in interest rates on bank borrowings. As finance income outpaced costs during the period, we recorded net finance income of HK\$2.9 million (corresponding period of 2022: a net finance costs of HK\$0.3 million).

PROSPECTS

Being mindful of the fast-changing business environment, we will stay vigilant and adopt a prudent strategy. The Group is positive about the outlook of the construction industry in Hong Kong. We will grasp the opportunities presented by the Hong Kong government's public housing construction program and a series of hospital development and improvement projects. We are confident that we will benefit from the growth in Hong Kong's construction industry in the coming years. It will drive the demand for our products due to this positive trend.

APPRECIATION

We would like to express our appreciation to the management and staff of the Group for their dedication and commitment. We would also like to offer our gratitude to our valued shareholders, banks and business partners for their continued trust and support.

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30 June 2023, the cash and bank balances of the Group were approximately HK\$263.2 million (31 December 2022: HK\$252.5 million) including pledged bank deposits amounting to approximately HK\$46.0 million (31 December 2022: HK\$46.0 million). Basically the Group's working capital requirement is financed by its internal resources and banking facilities. The Group believes that funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

As at 30 June 2023, the Group had aggregate banking facilities of trade finance of approximately HK\$312.3 million (31 December 2022: HK\$262.3 million), of which approximately HK\$83.1 million (31 December 2022: HK\$54.5 million) was utilised. The Group's total borrowings stood at approximately HK\$60.3 million (31 December 2022: HK\$53.4 million), and the entire amount of borrowings for both periods will mature within one year. 43% (31 December 2022: 46%) and 57% (31 December 2022: 54%) of the borrowings were subject to floating and fixed rates respectively.

The gearing ratio as measured by total bank borrowings to total equity was approximately 8.6% as at 30 June 2023 (31 December 2022: 7.9%). As at 30 June 2023 and 31 December 2022, the entire amount of the Group's borrowings was denominated in Hong Kong dollars.

The Group conducts its business transactions mainly in Hong Kong dollar, Macau Pataca, Renminbi and United States dollar. In order to manage foreign exchange risk, the Group has

been closely monitoring its foreign currency exposure and will arrange for any hedging facilities if necessary.

CHARGE ON ASSETS

As at 30 June 2023, certain bank deposits held by subsidiaries of the Group with an aggregate carrying amounts of approximately HK\$46.0 million (31 December 2022: HK\$46.0 million) were pledged to banks for banking facilities.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2023 (31 December 2022: Nil).

CAPITAL COMMITMENTS

As at 30 June 2023, the Group had capital commitment of HK\$1.3 million (31 December 2022: HK\$533,000) in respect of Enterprise Resources Planning system contracted for but not provided for in the consolidated financial statements.

STAFF AND REMUNERATION POLICY

As at 30 June 2023, the Group employed a total of 160 employees (31 December 2022: 155). Total employee benefit expenses for the period ended 30 June 2023 was approximately HK\$ 34.6 million (2022: HK\$30.0 million).

Remuneration policy is reviewed annually and certain staff members are entitled to sales commission. In addition to the basic salaries and contributions to the mandatory provident fund, the Group also pays discretionary bonus and provides staff with other benefits including medical scheme for Hong Kong employees. The Group contributes to an employee pension scheme established by the PRC Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in Mainland China. The Group adopted a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the result of the Group.

INTERIM DIVIDEND

The Board does not declare interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Rules Governing the Listing of Securities on Stock Exchange (the “Listing Rules”) throughout the period.

REVIEW BY AUDIT COMMITTEE

The condensed consolidated interim financial information for the six months ended 30 June 2023 has not been audited nor reviewed by the Company’s auditor, PricewaterhouseCoopers, but this report has been reviewed by the audit committee of the Company.

The audit committee has reviewed with management the accounting policies and practices adopted by the Group and financial reporting matters including the review of the unaudited condensed consolidated financial information for the period. The audit committee of the Company currently consists of Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen, Mr. Guan Zhiqiang and Mr. Wang Chaolong as independent non-executive directors.

COMPLIANCE WITH MODEL CODE OF LISTING RULES

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules. Having made specific enquiry with the Directors, all Directors confirmed that they have fully complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2023.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Company at www.chinapipegroup.com and the website of the Stock Exchange at www.hkexnews.hk. The 2023 interim report of the Company will be available at the website of the Company and the website of the Stock Exchange and despatched to shareholders of the Company in due course.

By Order of the Board
China Pipe Group Limited
Lai Fulin
Chairman

Hong Kong, 29 August 2023

As at the date of this announcement, the Board consists of Mr. Lai Fulin and Mr. Yu Ben Ansheng as executive directors; and Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen, Mr. Guan Zhiqiang and Mr. Wang Chaolong as independent non-executive directors.