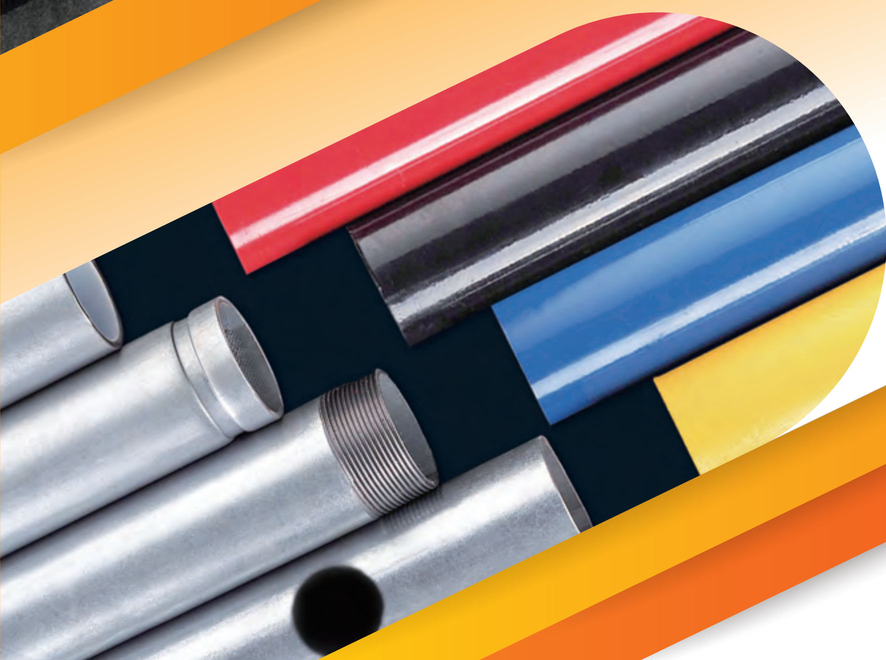
迈科管业控股有限公司

MAIKE TUBE INDUSTRY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1553

ANNUAL REPORT 2019



CONTENT

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
“China” or “PRC”	The People’s Republic of China and, except where the context requires and only for the purpose of this report, references to China do not include Taiwan, the Hong Kong Special Administrative Region of the PRC or the Macao Special Administrative Region of the PRC
“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 and Corporate Governance Report, Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Director(s)”	Director(s) of the Company
“ERW” or “electric 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 is a direct wholly-owned subsidiary of our Company
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HVAC”	Heating, ventilation and air conditioning
“Jinan Ma Steel”	Jinan Magang Steel Pipes Manufacturing Company* (濟南瑪鋼鋼管製造有限公司), a company established under the laws of the PRC as a limited liability company on 7 November 2001 and is an indirect wholly-owned subsidiary of 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 is 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 is held as to 64.51% by Jinan Gong Chuang Meide Corporate Management Partnership (Limited Partnership)* (濟南共創玫德企業管理合夥企業（有限合夥）) and 35.49% by Ningbo Ming De Heng Sheng Investment Limited* (寧波明德恒生投資有限公司)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
"Mr. Kong"	Mr. Kong Linglei (孔令磊), one of our Controlling Shareholders, the Chairman and executive Director
"Nomination Committee"	the Nomination Committee of the Board
"Prospectus"	prospectus of the Company dated 29 November 2019
"Remuneration Committee"	the Remuneration Committee of the Board
"RMB"	Renminbi Yuan, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share Option Scheme"	a share option scheme passed pursuant to a written resolution by the Shareholder on 19 November 2019
"SSAW steel pipe(s)"	spiral submerged arc welded steel pipes which formed by utilising submerged arc welding technology with spiral weld seam, i.e., pipes made from strips of hot rolled steel plates formed helically into cylinders and then welded as they are formed
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"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 is an indirectly wholly-owned subsidiary of our Company

"USD"	United States dollar, the lawful currency of United States
"Vietnam Piping"	Viet Nam Piping Industries Company Limited, a company incorporated under the laws of Vietnam on 7 January 2019 and is an indirectly wholly-owned subsidiary of our Company
"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).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. KONG Linglei *(Chairman)*
Mr. GUO Lei *(Chief Executive Officer)*
Mr. XU Jianjun
Mr. YANG Shufeng

Non-executive Director
Ms. Zhao Xuelian *(Appointed on 31 March 2020)*

Independent Non-executive Directors
Mr. LIU Fengyuan
Mr. DING Xiaodong
Mr. MA Changcheng

AUDIT COMMITTEE

Mr. DING Xiaodong *(Chairman)*
Mr. LIU Fengyuan
Mr. MA Changcheng

REMUNERATION COMMITTEE

Mr. MA Changcheng *(Chairman)*
Mr. KONG Linglei
Mr. LIU Fengyuan

NOMINATION COMMITTEE

Mr. KONG Linglei *(Chairman)*
Mr. LIU Fengyuan
Mr. MA Changcheng

COMPANY SECRETARY

Mr. Leung Wing Lun *(HKICPA)*

AUTHORISED REPRESENTATIVES (FOR THE PURPOSE OF THE LISTING RULES)

Mr. GUO Lei
Mr. LEUNG Wing Lun *(HKICPA)*

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 629A, 6th Floor
Star House, No. 3 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS (EFFECTIVE FROM 1 APRIL 2020)

Tricor Services (Cayman Islands) Limited
2nd Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION

AUDITOR

Deloitte Touche Tohmatsu

COMPLIANCE ADVISER

Fortune Financial Capital Limited

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 Board (the "Board") of Directors (the "Directors") of Maike Tube Industry Holdings Limited (the "Company", together with its subsidiaries, collectively referred to as the "Group"), I am pleased to present to the shareholders the audited consolidated annual results for the year ended 31 December 2019. Faced with complicated and changing domestic and international economic landscape full of challenges in 2019, our Group recorded a turnover of approximately RMB1,125.3 million (2018: approximately RMB1,214.8 million), representing a decrease of approximately 7.4%. Our net profit for the year amounted to approximately RMB89.7 million (2018: approximately RMB101.5 million). Earnings per share attributable to ordinary equity holders of the parent company was approximately RMB0.265 (2018: approximately RMB0.303). The Board does not recommend the payment of any final dividend for the year ended 31 December 2019.

In line with the Belt and Road initiative, our Group has actively accelerated its strategic transformation process by expanding our domestic and overseas production capacity. We have established Vietnam Piping and successfully put it into operation in the first quarter of 2019, with the addition of a 3PE production workshop, a second plastic coating line and welded pipe lines during the year following its establishment, thereby improving product delivery capabilities of our Group. During the year, we delivered approximately 188,500 tons of steel pipes and standard prefabricated pipes, representing a year-on-year decrease of 0.8%, and received production orders of approximately 197,600 tons, including domestic orders of approximately 121,600 tons and overseas orders of approximately 76,000 tons.

Our Group sold nearly 50% of products to overseas markets of which the U.S. market accounted for 40.6%, in terms of the sales revenue of each countries. As a result, the trade tension between the United States and the PRC has caused a significant impact to the Group. Apart from possible measures disclosed in the Prospectus with a view to minimise the possible impact of the tariff on our Group's product, to cope with risks we were facing with, in terms of pipes, we accelerated the commencement of overseas factories. The Vietnam Piping completed the process from project approval to commencement within 5 months, and has delivered approximately 500 tons of standard prefabricated pipes, which met the needs of overseas customers, showcased our strengths, actions and sense of responsibility, and enhanced customers' confidence in our Group. In terms of products, we have led the new needs of customers through developing new products, and rapidly expanded our electrical metal conduit product series. During the year, these new products recorded a significant growth, and will continue to lead the development of the standard prefabricated pipe industry. In terms of price, we externally communicated with key customers one by one, and internally adopted multiple methods to improve efficiency, reduce consumption and control costs. We conducted negotiations with our customers on tax rate, exchange rate, and material price fluctuations to share costs and tide over hardships.

At the beginning of 2019, China has vigorously promoted the renovation policy of replacing coal with gas, so that our Group implemented precise marketing strategies and vigorously promoted the external polyester coating composite steel pipe, an advantageous product of our Group, to solve painstaking problems of our customers. We have fully leveraged our advantages on headquarters brands selected by ENN Energy, China Resources Gas and Kunlun Gas, and conducted comprehensive research and visits to analyze the advantages and disadvantages of competitors. With flexible sales strategy, we have delivered an accumulation of approximately 40,900 tons of products, representing an increase of 109.4%. Our Company has delivered various steel pipes of approximately 170,100 tons in the domestic market, representing an increase of 3.0% as compared with 165,100 tons in 2018.

CHAIRMAN'S STATEMENT

Our Group has been pursuing market-oriented and user-friendly products to create value for our customers. Through our customized R&D for each customer, point-to-point customized production and face-to-face customized services, we addressed customers' concerns in the factory, thus establishing close cooperation with our customers and improving the core competitiveness of our Group. We have realized the project pool management for prefabricated products through establishing the funneling project management system, so that we have formulated clear target customer lists and developed 23 new projects during the year.

Relying on efforts of our employees, our Group has successfully developed the side outlet spray pipe product series, the external polyester coating composite steel pipe for outdoor gas, and the external coated decorative pipes for indoor purposes, which satisfied the needs of our customers and ensure the growth of our products' sales volume. Our Group has taken the lead in formulating the association standard "Spiral Steel Pipe Nipples" which was officially implemented on July 2, 2019, participated in the formulation of "Technical Specification for Trench Connection Pipe Engineering" which has passed the review by the expert review meeting, and participated in the preparation of the association standard "Galvanised Steel Pipe Used for Fuel Gas" which has been proposed. Capitalizing on our excellent governance and sound operating performance, our Group was awarded numerous honors and prizes including the "Gazelle Benchmarking Enterprise of Shandong Province", Shandong and Jinan "Specialized, Refined, Peculiar and New" SME, Jinan Corporate Technology Enterprise, National Green Factory and Belt and Road Model Enterprise.

ACKNOWLEDGMENT

On behalf of our Group, I would like to thank all employees their diligent hard work in the past challenging year, and their substantial support in the Hong Kong listing of our Group. At the same time, I am also grateful to all shareholders for their strong support in integrating the Group towards a bright future. The Board is confident in the management team and their capabilities. We will lay a more solid foundation to embrace the future.

Chairman
KONG Linglei
Pingyin County, Jinan, Shandong Province, China

March 30, 2020

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Kong Linglei (孔令磊), aged 46, is the Chairman and an executive Director. He is the founder and the chairman of Jinan Mech since May 2013 and is a director of Jinan Ma Steel since June 2007. He was appointed as our Director in February 2019 and redesignated as an executive Director in May 2019. He is primarily responsible for presiding over our Board and responsible for the overall business direction of our Group. He is also the director of Tube Industry Investments and Guan Dao Investments.

Mr. Kong has over 25 years of experience in business management and operations. Prior to joining our Group, from July 1994 to September 2001, he worked for Industrial and Commercial Bank of China Limited in Jinan, the PRC, where he led the international business department of Pingyin branch as the department head. From September 2001 to August 2004, he worked at China Merchants Bank in Jinan, the PRC, as a deputy manager, where he was responsible for managing day-to-day operation at the Jinan branch. He served at Meide since August 2004, and remained as the chairman of Meide as at the Latest Practicable Date. Please see "Relationship with our Controlling Shareholders — Management Independence" for further details.

Mr. Kong has been elected as the president of the Pingyin Industry and Commerce Association (平陰縣工商聯合會) since December 2016. He has also been the vice president of the Shandong Industry and Commerce Federation (山東省工商聯) since June 2017.

Mr. Kong graduated from the University of Science and Technology of China (中國科學技術大學), the PRC, with a master's degree in executive master of business administration in December 2018.

Guo Lei (郭雷), aged 41, is 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 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.

Xu Jianjun (徐建軍), aged 57, is an executive Director. He joined Jinan Ma Steel as a general manager in August 2012 and subsequently joined our Group upon the acquisition of Jinan Ma Steel in November 2016. He became the authorised representative of Vietnam Piping in January 2019. He was appointed as an executive Director in May 2019 and is primarily responsible for the management and operation of Vietnam Piping. He is also the director of Vietnam Piping.

Mr. Xu has over 40 years of experience in pipe and foundry industries. Prior to joining our Group, from December 1978 to July 2012, Mr. Xu served various positions at Meide and his last position at Meide was the general manager's assistant, where he was mainly responsible for production management.

Mr. Xu graduated from Jinan Vocational Secondary School* (濟南市職工中等專業學校), the PRC, with an industry and business management diploma in July 1994.

Yang Shufeng (楊書峰), aged 48, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Liu Fengyuan (劉鳳元), aged 49, 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
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 present
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 present

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.

Ding Xiaodong (丁曉東), aged 53, 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
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 present
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
CNPC Capital Company Limited (中國石油集團資本股份有限公司)	Shenzhen Stock Exchange	000617	Developing, manufacturing and marketing of internal combustion engines	December 2011 to April 2017
Synthesis Electronic Technology Co., Ltd (神思電子技術股份有限公司)	Shenzhen Stock Exchange	300479	Developing, manufacturing and sales of smart identification terminals and industry application software	August 2014 to August 2017
Grehar Landscape CO., LTD (光合園林股份有限公司)	National Equities Exchange and Quotations	832657	Tourism planning, landscape planning and infrastructure investment	From October 2014 to October 2017
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 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.

Ma Changcheng (馬長城), aged 58, 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 30 years of experience in supervising and managing technology and safety work. From September 1989 onwards, he served at the China Gas Association (中國城市燃氣協會), a Chinese association that aims to facilitate gas development in the PRC, where he began his career the technical cadre division of the association, and then served as the deputy secretary of the association and he currently serves as the deputy secretary general of the association, and he was responsible for assisting in the work of the safety committee of the association.

Mr. Ma graduated from the Beijing Institute of Architectural Engineering* (北京建築工程學院), (currently known as Beijing University of Civil Engineering and Architecture (北京建築大學), the PRC, with a bachelor's degree in gas engineering in July 1983.

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)	48	Chief of SSAW steel pipe production	19 November 2016	Production management at Jinan Ma Steel	N/A
Fang Xingjun (方興軍)	51	Chief of ERW steel pipe production	15 October 2015	Production management at the steel pipe area of the factory	N/A
Wang Ning (王寧)	43	Chief of standard prefabricated pipe nipple products production	1 August 2018	Production management of the standard prefabricated pipe nipples	N/A
Zhang Ping (張平)	36	Deputy general manager (Overseas sales)	16 October 2016	Overseas sales of our Group	N/A
Liu Minghuai (劉明懷)	44	Deputy general manager (Finance)	1 March 2017	Overall management of the financial affairs of our Group	N/A

Tian Mingze (田明澤), aged 48, 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 manger 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.

Fang Xingjun (方興軍), aged 51, is the chief of ERW steel pipe production of our Company. He joined our Group as factory manager for welded pipes production of Jinan Mech in October 2015, where he was responsible for pipe production and management. He was appointed as our Group's chief of ERW steel pipe production in May 2019 and he is primarily responsible for the production management of our ERW steel pipe products.

Mr. Fang has over 30 years of experience in pipe and foundry industries. Prior to joining our Group, from September 1985 to October 2015, he worked in Meide, where he began his career as a casting and melting workshop worker, and his last position was a packaging workshop officer.

Mr. Fang attained secondary level of education and graduated from Pingyin No.4 Secondary School* (平陰縣第四中學), the PRC, in July 1985.

Wang Ning (王寧), aged 43, 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 and he is primarily responsible for the production management of production.

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.

Zhang Ping (張平), aged 36, 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 44, 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.

COMPANY SECRETARY

Leung Wing Lun (梁穎麟), aged 38, was appointed as the company secretary of our Company on 2 April 2019. He has over 15 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 secretaries of various companies listed on the Stock Exchange, including Hang Yick Holdings Company Limited (stock code: 1894), a Hong Kong company specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong; and Da Sen Holdings Group Limited (stock code: 1580), a Hong Kong company principally engaged in the manufacturing and sales of plywood and biomass wood pellets, respectively.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in (i) the manufacturing and sales of standard prefabricated pipe nipple products; (ii) manufacturing and sales of steel pipe products; and (iii) the design and supply of assembled piping systems. We also sell unused raw materials mainly including steel coils that were procured from our suppliers.

The standard prefabricated pipe nipple products of the Group are used in pipe system to connect different straight pipes or pipe sections, can be adjusted to different sizes or shapes. Standard prefabricated pipe nipple products and steel pipes products have different specifications, such as length, outside diameter and surface finishing which cater for the varying needs of the Group's customers and comply with international standards. We sold most of our of standard prefabricated pipe nipple products and customised steel pipe products directly or indirectly 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 relating to quality control including, among other things, the ISO 9001 certification, ISO 14001 certification and OHSAS 18001 certification. Our products are used and applied in the municipal pipeline system designed for natural gas, water supply, sewage, HVAC and fire extinguish water steel pipes for firefighting. Leveraging our industry knowledge and expertise, we are also capable of designing and supplying assembled piping system for our customers. Our customers would seek technical advice or input to their 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.

EXPAND OUR PRODUCTION TO VIETNAM

In December 2018, we leased a production plant in Dong Nai Province, Vietnam with an area of approximately 3,842 sq.m. for a term of three years for the manufacturing of standard prefabricated pipe nipple products. Vietnam Piping, an indirect wholly-owned subsidiary of the Company, was incorporated on 24 January 2019 and was successfully put into operation in the first quarter of 2019. Most of our products manufactured in Vietnam were exported to the United States for the year ended 31 December 2019. We will continue to add new production lines in Vietnam as planned. Products manufactured in our production plant in Vietnam will not be used to solely satisfy customers' orders in the United States, but will also satisfy customers' orders in other regions such as Europe, South Africa, Southeast Asia and Middle East.

In 2019, Vietnam Piping produced approximately 500 tons of standard prefabricated products, and recorded the contract amount of RMB17.3 million with the net profit of approximately RMB5.7 million. Apart from possible measures disclosed in the Prospectus with a view to minimise the possible impact of the tariff on our Group's product, the Directors are of the view that the setting up of the expansion production facility in Vietnam will mitigate the impact of China–U.S. Trade War on our operations and financial performance and promote our internationalisation strategy.

OUR ORDERS

In 2019, the Group received new orders for approximately 18,700 tons of standard prefabricated pipe products, of which approximately 90.4% were from overseas customers; we also received new orders for approximately 178,900 tons of steel pipe products, of which approximately 67.9% were from domestic customers. In 2019, we have delivered approximately 18,400 tons of standard prefabricated pipe products and approximately 170,100 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 2019, our revenue from standard prefabricated pipe products amounted to approximately RMB286.6 million, accounting for 25.5% of the total revenue of the Group; and the gross profit amounted to RMB126.8 million, accounting for approximately 48.5% of the total gross profit of the Group. For the year ended 31 December 2018, our revenue from standard prefabricated pipe nipples products amounted to approximately RMB379.3 million, accounting for 31.2% of the total revenue of the Group; and the gross profit amounted to RMB161.1 million, accounting for approximately 57.7% of the total gross profit of the Group. The decrease in both revenue and gross profit generated from standard prefabricated pipe nipples products was primarily due to the decrease in orders delivered to customers in the U.S. by the Group caused by trade tension between the United States and the PRC. In 2019, the Group delivered approximately 12,700 tons of standard prefabricated pipe products to customers in the United States, representing a decrease of 13.0% compared to approximately 14,600 tons in 2018. Our Group strived to mitigate the impact of trade tension between the U.S. and the PRC on our Group's operations and financial performance through our advantages, such as the strong quality control capabilities, comprehensive product offerings and short delivery cycle.

STEEL PIPE PRODUCTS

Our steel pipe products are made through rolling steel plate and welding the seam, and are mainly used for gas, water supply, HVAC and fire extinguish. In order to meet the demand of individual customers, the Group produced standard steel pipes with value-added processes under customised requirements of customers, including but not limited to pipe body processing, non-standardised surface treatment, pipe end processing, thickened galvanisation, and internal smoothing. In 2019, our ERW steel pipes, spiral submerged arc welded steel pipes and customised steel pipes recorded revenues of approximately RMB367.0 million, RMB214.8 million and RMB201.8 million, respectively, representing a year-on-year increase of 4.7%, -26.5% and 53.4% as compared to 2018, respectively. The total revenue of steel pipe products accounted for approximately 69.6% of the total revenue for the year ended 31 December 2019.

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. In 2019, our design and supply of assembled piping system recorded the revenue of approximately RMB11.9 million, representing a year-on-year increase of approximately 10.1% as compared to 2018, accounting for approximately 1.1% of the total revenue for the year ended 31 December 2019.

FINANCIAL REVIEW

Our revenue is generated from (i) sales of standard prefabricated pipe products; (ii) sales of steel pipe products; (iii) sales of the design and supply of assembled piping systems; and (iv) sales of unused raw materials mainly including steel coils that were procured from suppliers.

For the year ended 31 December 2019, our total revenue was approximately RMB1,125.3 million, representing a decrease of approximately RMB89.6 million or 7.4% as compared with that of 2018. The decrease in revenue was mainly due to (i) the decline in the average selling price of the products, which was caused by a decline in the cost of raw materials; (ii) a year-on-year decrease in spiral pipes delivered; and (iii) the decrease in orders delivered to customers in the United States by the Group caused by trade tension between the United States and the PRC.

Sales by product categories

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

	2019				2018			
	Revenue RMB'000	% of total	Gross profit RMB'000	Gross profit margin	Revenue RMB'000	% of total	Gross profit RMB'000	Gross profit margin
Standard prefabricated pipe nipples	286,557	25.5%	126,841	44.3%	379,267	31.2%	161,061	42.5%
Steel pipe products								
ERW steel pipes	367,038	32.6%	54,010	14.7%	350,410	28.8%	40,742	11.6%
SSAW steel pipes	214,776	19.1%	39,464	18.4%	292,183	24.1%	50,356	17.2%
Customised steel pipes	201,821	17.9%	37,149	18.4%	131,589	10.8%	23,527	17.9%
Design and supply of assembled piping system	11,867	1.1%	3,378	28.5%	10,774	0.9%	3,174	29.5%
Sales of unused raw materials	43,222	3.8%	558	1.3%	50,616	4.2%	292	0.6%
Total	1,125,281	100.0%	261,400	23.2%	1,214,839	100.0%	279,152	23.0%

	2019			2018		
	Sales volume ton'000	% of total	ASP RMB/ton	Sales volume ton'000	% of total	ASP RMB/ton
Standard prefabricated pipe nipples	18.4	9.1%	15,603	24.9	12.2%	15,209
Steel pipe products						
ERW steel pipes	79.2	39.2%	4,634	73.8	36.1%	4,753
SSAW steel pipes	51.2	25.4%	4,195	65.7	32.1%	4,447
Customised steel pipes	39.7	19.7%	5,086	25.6	12.5%	5,148
Design and supply of assembled piping system	N/A	N/A	N/A	N/A	N/A	N/A
Sales of unused raw materials	13.3	6.6%	3,246	14.5	7.1%	3,487
Total	201.7	100.0%	5,576	204.5	100.0%	5,940

Sales by geographical regions

The following table sets forth the breakdown of our revenue, sales volume and ASP by geographical regions of our products for the periods indicated:

	2019				2018			
	Revenue RMB'000	% of revenue	Sales volume ton'000	ASP RMB/ton	Revenue RMB'000	% of revenue	Sales volume ton'000	ASP RMB/ton
Domestic market								
PRC	618,975	55.0%	136.0	4,551	655,546	54.0%	135.5	4,838
Overseas markets								
The United States	205,684	18.3%	12.7	16,196	247,510	20.4%	14.6	16,953
Other countries in America (excluding the United States)	120,627	10.7%	20.3	5,942	101,215	8.3%	14.2	7,128
Other countries in Asia (excluding the PRC)	118,849	10.6%	23.3	5,101	169,760	14.0%	34.2	4,964
Europe	17,931	1.6%	1.8	9,962	13,803	1.1%	1.3	10,618
Others	43,215	3.8%	7.6	5,686	27,005	2.2%	4.7	5,746
Total	1,125,281	100.0%	201.7	5,576	1,214,839	100.0%	204.5	5,940

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

OTHER INCOME

In 2019, other income mainly represents interest income and government grant, which increased from approximately RMB0.4 million in 2018 by approximately 350.0% or RMB1.4 million to approximately RMB1.8 million in 2019. The increase in other income was mainly due to the increase in government grant by RMB1.4 million.

OTHER GAINS AND LOSSES

In 2019, 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 loss on derivative financial instruments and net exchange gains or losses. Other gains and losses increased from approximately RMB1.1 million in 2018 by approximately 954.5% or approximately RMB10.5 million to approximately RMB11.6 million in 2019. Changes in other gains and losses were mainly due to the increase in structured bank deposits by approximately RMB0.9 million; fair value gains on foreign currency forward contracts recorded approximately RMB0.8 million in 2019 as compared to losses of approximately RMB11.7 million in the same period of 2018; and fair value gains on derivative financial instrument of approximately RMB0.5 million in 2019 as compared to losses of approximately RMB0.7 million in the same period of 2018.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses decreased from approximately RMB65.9 million in 2018 by approximately 2.9% or RMB1.9 million to approximately RMB64.0 million in 2019, which was primarily due to the decrease in overseas sales of standard prefabricated products.

ADMINISTRATIVE EXPENSES

Administrative expenses increased from approximately RMB26.2 million in 2018 by approximately 15.6% or RMB4.1 million to approximately RMB30.3 million in 2019, which was primarily due to the increase in compensation of management staff and the increase in professional fees for the consulting services during the year.

RESEARCH AND DEVELOPMENT COSTS

The cost of research and development decreased from approximately RMB50.0 million in 2018 by approximately 8.4% or RMB4.2 million to approximately RMB45.8 million in 2019. Our research and development costs accounted for approximately 4.1% of the total revenue (2018: approximately 4.1%).

IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

For the year ended 31 December 2019, impairment losses on trade receivables and contract assets were approximately RMB0.3 million (2018: approximately RMB0.1 million).

FINANCE COSTS

Finance costs were approximately RMB12.5 million in 2019, representing a decrease of RMB2.0 million as compared to approximately RMB14.5 million in 2018. The decrease in finance costs was primarily due to the decrease in bank loans. The effective interest rate for the year ended 31 December 2019 was approximately 4.4% (2018: approximately 4.6%).

TAXATION CHARGE

Taxation charge decreased from RMB17.9 million for the year ended 31 December 2018 to RMB14.5 million for the year ended 31 December 2019, primarily due to the decrease in sales.

PROFIT FOR THE YEAR

For the year ended 31 December 2019, the profit for the year was approximately RMB89.7 million with the net profit margin of approximately 8.0%. Excluding the non-recurring listing expenses of approximately RMB17.7 million and RMB4.5 million for the years ended 31 December 2019 and for the year ended 31 December 2018, the adjusted profit for the year was approximately RMB107.4 million and RMB106.0 million, respectively for the respective periods, representing an increase of 1.3%. Our adjusted profit margin was approximately 9.5% and 8.7%, respectively.

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets forth certain information on our consolidated statements of cash flows for the years ended 31 December 2018 and 2019:

	Years ended 31 December	
	2019	2018
	RMB'000	RMB'000
Net cash generated from operating activities	**13,050**	111,162
Net cash generated from/(used in) investing activities	**41,568**	(102,043)
Net cash generated from/(used in) financing activities	**114,040**	(16,458)
Increase/(decrease) in cash and cash equivalents	**168,658**	(7,339)
Cash and cash equivalents at beginning of year	**46,450**	53,789
Cash and cash equivalents at end of year	**215,108**	46,450

NET CASH GENERATED FROM OPERATING ACTIVITIES

Our net cash generated from operating activities decreased from approximately RMB111.2 million for the year ended 31 December 2018 to approximately RMB13.1 million for the year ended 31 December 2019.

The decrease in net cash generated from operating activities was mainly (i) decrease in revenue; (ii) increase in inventories; (iii) increase in trade receivables, trade receivables backed by bills and contract assets; (iv) increase in deposits, prepayments and other receivables; and (v) decrease in trade and bills payables.

NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES

Our net cash from investing activities changed from a net outflow of approximately RMB102.0 million in 2018 to a net inflow of approximately RMB41.6 million in 2019. The change in net cash was primarily due to a year-on-year increase in withdrawal of structured bank deposits.

NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES

Our net cash from financing activities increased from net outflow of approximately RMB16.5 million in 2018 to a net inflow of approximately RMB114.0 million in 2019. The changes in net cash used in financing activities were primarily due to the combination of the following factors: (i) funds raised from issuance of shares; and (ii) repayment of bank borrowings and payment of bank loan interest.

NET CURRENT ASSETS AND LIABILITIES

Inventories

Our balance of inventories increased by approximately RMB17.1 million or 9.62% from approximately RMB177.8 million as at 31 December 2018 to approximately RMB194.9 million as at 31 December 2019, which was mainly driven by the increase of undelivered orders. Our average turnover days of inventories (net of provision) increased from 70 days for the year ended 31 December 2018 to 79 days for the year ended 31 December 2019, mainly due to (i) increase in inventories, and (ii) decrease in revenue.

TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BILLS

Our trade receivables increased from approximately RMB165.2 million as at 31 December 2018 to approximately RMB185.9 million as at 31 December 2019, mainly due to increase in sales in the fourth quarter of 2019.

Our trade receivables backed by bills increased from approximately RMB50.2 million as at 31 December 2018 to approximately RMB76.2 million as at 31 December 2019, mainly due to increase in bank bills received.

CONTRACT ASSETS

Our contract assets decreased from approximately RMB18.8 million as of 31 December 2018 to approximately RMB16.4 million as of 31 December 2019, mainly due to the maturity of part of contracts assets.

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Our deposits, prepayments and other receivables increased from approximately RMB40.7 million as at 31 December 2018 to approximately RMB70.9 million as at 31 December 2019, mainly due to the increase in advances for increased purchase of steel coils.

AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties increased from approximately RMB4.4 million as at 31 December 2018 to approximately RMB6.5 million as at 31 December 2019, mainly due to unsettled trade amounts at the end of the period.

Amounts due to related parties decreased from approximately RMB11.6 million as at 31 December 2018 to approximately RMB0.5 million as at 31 December 2019, mainly due to the settlement of trade amounts at the end of the period.

TRADE PAYABLES

Our trade payables decreased from approximately RMB51.6 million as of 31 December 2018 to approximately RMB42.4 million as of 31 December 2019, mainly due to the settlement of trade payables to our suppliers at the end of the period.

CONTRACT LIABILITIES

Our contract liabilities increased from approximately RMB16.4 million as at 31 December 2018 to approximately RMB25.4 million as at 31 December 2019, which was related to timing of delivery of products to our customers.

REFUND LIABILITIES

Our refund liabilities decreased from approximately RMB15.8 million as of 31 December 2018 to approximately RMB7.3 million as of 31 December 2019, primarily due to (i) settlement; and (ii) decrease in revenue.

OTHER PAYABLES AND ACCRUED CHARGES

Our other payables and accrued charges increased from approximately RMB26.0 million as of 31 December 2018 to approximately RMB34.8 million as of 31 December 2019, primarily due to the increase in compensation payable and accrual expenses.

PROVISIONS

Our provisions increased from approximately RMB1.3 million as of 31 December 2018 to approximately RMB1.5 million as of 31 December 2019. Provisions represent warranty provided for our products sold.

CAPITAL COMMITMENTS

As at 31 December 2019, our capital commitments amounted to approximately RMB15.0 million (2018: approximately RMB3.8 million).

BORROWINGS

Our borrowings decreased from approximately RMB300.2 million as of 31 December 2018 to approximately RMB237.5 million as of 31 December 2019, mainly due to repayment of bank loans with the raised fund and part of our own fund.

LEASE LIABILITIES

As of 31 December 2019, our Group leased a property to operate our factory 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 RMB0.8 million, as we leased a production plant in Vietnam in end of 2018, of which RMB0.4 million was secured by rental deposit, but unguaranteed.

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 and HKD;

(ii) Sales of goods to overseas customers and related trade receivables are denominated in USD.

Our Group mainly manages potential fluctuation in foreign exchange through foreign currency forward contracts, and has not entered into any hedging transactions.

DIVIDEND

The Board does not recommend the payment of dividend for the year ended 31 December 2019.

PLEDGE OF ASSETS

As at 31 December 2019, our Group pledged certain property, plant and equipment, Right-of-use assets, trade receivables backed by bills and pledged bank deposits with the total net book value of approximately RMB32.9 million (2018: approximately RMB86.1 million) to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities.

MAJOR INVESTMENTS IN, MAJOR ACQUISITIONS OF AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Except for the reorganisation disclosed in the Prospectus, the Group did not have any other material acquisitions or disposals during the year ended 31 December 2019.

EMPLOYEES AND COMPENSATION POLICIES

For the year ended 31 December 2019, labor costs (including Directors' remunerations and emoluments in other forms) were approximately RMB74.9 million (2018: RMB61.7 million). Our Group's employees are generally remunerated by way of fixed salary and commission will be awarded to our sales and marketing staff if they have achieved certain sales targets. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our Group's employees are also entitled to a performance-based bonus, paid leave and various subsidies.

As of 31 December 2019, we had 838 employees (2018: 826 employees), 756 of whom were in the PRC and 82 of whom are located in Vietnam. A breakdown of our employees by functions is set forth below:

	As at 31 December 2019	
Function	**PRC**	**Vietnam**
Managerial, administrative and accounts	43	4
Production	473	71
Quality control	30	5
Procurement and inventory	30	2
Research and development	105	0
Sales and marketing	75	0
Total number of employees	756	82

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to the operation of our businesses, including strategic, operational, financial and legal risks. Our risk management policy sets forth procedures to identify, analyse, categorise, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management system and assessing and updating our risk management policy on a quarterly basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

ENVIRONMENT POLICIES AND PERFORMANCE

The major pollutants generated by our Group in the manufacturing process include various kinds of exhaust gas and wastewater which could be dangerous to human body. We are subject to the relevant PRC and Vietnam environmental laws and regulations promulgated by both the state and local governments. During the Reporting Period, we complied with the pollutant discharge standards, under which the amount of different kinds of heavy exhaust gas and wastewater discharge cannot exceed the prescribed levels.

To ensure our due compliance with the pollutant discharge standard under the relevant PRC and Vietnam environmental laws, rules and regulations, we are implementing the following systems:

(i) the manufacturing technology, production lines and processes applied/to be applied by our Group as well as samples of the wastewater and gas emission are thoroughly evaluated, tested and analysed by our research and development team;

(ii) we shall closely monitor the level of pollutants in each step of our production process and we shall take appropriate remedial actions if the level of pollutants exceeds the regulated levels;

(iii) we shall collect and analyse the samples from our wastewater and gas emission from our manufacturing process on regular basis to ensure our due compliance with relevant discharge standards; and

(iv) our research and development team makes ongoing efforts to develop new technologies to enhance our manufacturing process to minimise the discharge of pollutants.

During the year, we did not have any material breaches of environmental protection standards causing material adverse impact on our business operations and financial conditions. Please refer to the paragraph headed “Business Review – Regulatory and legal compliance” in the Report of the Directors of this annual report.

FUTURE PLANS AND PROSPECTS

In terms of overseas markets, the China-U.S. phase-one economic and trade deal has been signed, and follow-up negotiations are expected to start, which are significant for stabilizing relations between the two major powers, preventing the escalation of the trade war, boosting the confidence of global consumers and investors, and promoting market demand and trade volume. In terms of the domestic market, China has implemented reconstruction projects on urban underground pipes and corridor, intensified the replacement of coal with gas in key areas, vigorously promoted prefabricated buildings and green buildings, and conducted thermal reconstruction of vast rural areas satisfying relevant conditions. Riding on current situations, the Group will seize the above opportunities to strengthen our own capacities. We will achieve sustainable growth, further strengthen our position in the standard prefabricated pipe nipple industry and steel pipe industry and create long-term value for our Shareholders by executing the following strategies: (i) increase our production capacity for ERW steel pipes by the addition of new production lines; (ii) strengthen the production capacity and competitiveness of spiral welded pipes by upgrading our spiral welded pipes production lines and adding new production facilities; (iii) increase the production capacity of Viet Nam Piping Industries Company Limited, and expand our business horizontally through acquisitions; and (iv) increase investment in research and development to further strengthen our research and development capabilities.

As of the date of the consolidated financial statements being authorised to issue, business operations of the Group in China have been impacted by an outbreak of the novel coronavirus ("COVID-19") since the latter half of January 2020, which has endangered the health of many people residing in China, as well as in other parts of the world as at the date of this report. As a result, certain short-term measures have been undertaken by the PRC Government and various provincial or municipal governments including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which was significantly disrupted travel and local economy. In addition, our production facilities were required for a temporary closure by the PRC Government in the early of February 2020, despite the financial impact due to such incident was not significant. In a long run, COVID-19 may bring a negative impact to the global economy which may have an adverse effect on our business generally. As COVID-19 continues to affect the global economy, public health and livelihood of the general public, our Group will closely monitor the affect of which, and take appropriate precautionary measures and actions to adapt to the changing environment. The Company will provide updates to investors and the Company's shareholders as and when necessary.

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 2019.

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 2019 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 27 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 2019, there was no material dispute or disagreement between the Group and its employees, customers or suppliers.

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 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 53 of this annual report.

The Directors do not recommend the payment of any dividends in respect of the year.

CLOSURE OF REGISTER OF MEMBERS

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

From Wednesday, 20 May 2020 to Monday, 25 May 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2020 annual general meeting. In order to be entitled to attend and vote at the 2020 annual general meeting, all completed transfer documents accompanied by the relevant share certificates have to be lodged with our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 19 May 2020 (Hong Kong time).

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 2019, the net proceeds from the global offering had been applied as follows:

	Net Proceeds		
	Planned (RMB'000)	Utilised (RMB'000)	Unutilised (RMB'000)
Increasing our production capacity of our production of ERW steel pipes	31,625	—	31,625
Upgrading one of the SSAW steel pipes production line	37,118	—	37,118
Setting up a new production facilities building	15,646	—	15,646
Expanding to overseas to increase the production capacity	15,646	—	15,646
Expanding our business horizontally through acquisition/collaboration	16,645	—	16,645
Strengthen research and development capabilities	16,645	—	16,645
Repayment of borrowings	16,645	16,645	—
General working capital	16,478	3,062	13,416
	166,448	19,707	146,741

Since the Listing and up to the date of this annual report, the unutilised net proceeds of RMB146.7 million from initial public offering were deposited in the licensed banks in the PRC and Hong Kong.

FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last four financial years is set out on page 124 of this annual report. This summary does not form part of the Group's consolidated financial statements.

DONATIONS

During the year ended 31 December 2019, the Group made charitable donations amounted is nil. (2018: nil).

SHARE CAPITAL

Details of movements in the Company's share capital during the year ended 31 December 2019 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 period from the Listing Date to 31 December 2019.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association 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 2019, 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 RMB199,478,000.

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. Kong Linglei *(Chairman)*
Mr. Guo Lei *(Chief executive officer)*
Mr. Xu Jianjun
Mr. Yang Shufeng

Independent Non-executive Directors

Mr. Liu Fengyuan
Mr. Ding Xiaodong
Mr. Ma Changcheng

In accordance with the Articles, all Directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming general meeting.

After the reporting period, Ms. Zhao Xuelian was appointed on 31 March 2020 as a non-executive director, please refer to the Company's announcement dated 31 March 2020 for information of her appointment.

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.

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.

DIRECTORS' SERVICE CONTRACTS

The executive Directors have entered into service agreements with the Company and each of the independent non-executive Directors signed an appointment letter with the Company, The principal particulars of these service contracts and the letters of appointment are (i) for an initial fixed term of three years commencing from the Listing Date, 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 838 employees, 756 of whom were in the PRC and 82 of whom are located in Vietnam as at 31 December 2019. The total salaries and related costs granted to employees amounted to approximately RMB74.9 million for the year ended 31 December 2019. 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.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions" below, none of the Directors 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 2019.

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 2019.

CONNECTED TRANSACTIONS

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

Product 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 and therefore a connected person of the Company.

On 22 November 2019, a framework products supply agreement (the "**Product 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 agreement to Meide. The Products Supply Framework Agreement 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 2019 is RMB54 million, in aggregate (RMB30 million for distribution and RMB24 million for internal use within Meide Group). The aggregate amounts for the sales of products under the Product Supply Framework Agreement to Meide Group for distribution and for internal use within Meide Group for the year ended 31 December 2019 are approximately RMB26,791,000 and RMB16,953,000 respectively.

As the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Product Supply Framework Agreement is over 5.0% on an annual basis and the annual consideration is more than HK$10.0 million, the transactions under this agreement constitute a non-exempt continuing connected transaction of the Company and is subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Pursuant to Rule14A.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 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.

Products Purchase Framework Agreement

On 22 November 2019, a framework products purchase agreement was entered between Meide, as the vendor and our Company, as the purchaser, under which our Company agreed to purchase Meide products including pipe fittings, repair parts, valves and crafts as specified in the agreement to our Company (the "Products Purchase Framework Agreement"). The Products Purchase Framework Agreement will be effective for three years and may be renewed by our Company, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations. The annual cap for the year ended 31 December 2019 was RMB1.6 million. Please refer to note 34 to the Group's consolidated financial statements for detailed transactions amounts during the year ended 31 December 2019.

As each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the total purchase incurred under the Products Purchase Framework Agreement was less than 5.0% on an annual basis and the annual consideration is less than HK$3.0 million, the total purchase incurred by our Company contemplated under this agreement falls within de minimis threshold as stipulated under Rule 14A.76(1)(a) of the Listing Rules and will be exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 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 2019, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, were as follows:

Long position in the Shares, underlying shares and debentures of our Company:

Name of Director or chief executive	Nature of interest	Number of Shares[(1)(2)]	Approximate percentage of Shareholding in the total issued share capital of our Company immediately upon completion of the Capitalisation Issue and Global Offering[(1)(2)]
Kong Linglei[(3)]	Interest of a controlled corporation	172,600,000 Shares (L)	39.788%
Guo Lei[(4)]	Interest of a controlled corporation	51,040,000 Shares (L)	11.766%

Notes:

(1) All interests stated are long positions.

(2) Based on the total number of 433,800,000 Shares in issue as at 31 December 2019.

(3) Kong Linglei held 100% of the issued share capital of Ying Stone, which in turn holds 172,600,000 Shares, representing 39.788% of the issued share capital of our Company.

(4) Guo Lei held 36.481% of the issued share capital of Tong Chuang Xing De BVI, which in turn holds 51,040,000 Shares, representing 11.766% of the issued share capital of our Company.

Save as disclosed above, as at 31 December 2019, 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 2019, 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 immediately upon completion of the Capitalisation Issue and the Global Offering[(1)(2)]
Tong Chuang Sheng De BVI	Beneficial owner	70,160,000 Shares	16.173%
上海恆源國際投資有限公司[(3)]	Beneficial owner	22,000,000 Shares	5.071%
Zhao Pu (趙璞)[(3)]	Interest of a controlled corporation	22,000,000 Shares	5.071%
Zhang Jingru (張晶茹)[(4)]	Interest of spouse	22,000,000 Shares	5.071%

Notes:

(1) All interests stated are long positions.

(2) Based on the total number of 433,800,000 Shares in issue as at 31 December 2019.

(3) Zhao Po holds 70% of the issued share capital of 上海恆源國際投資有限公司, which in turn holds 22,000,000 Shares, representing 5.071% of the issued share capital of our Company.

(4) Zhang Jingru is the spouse of Zhao Pu. Under the SFO, Zhang Jingru is deemed to be interested in the same number of Shares in which Zhao Pu is interested.

Save as disclosed above, as at 31 December 2019, 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.

(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 9.5 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 2019, the aggregate revenue from the Group's largest customer and five largest customers accounted for approximately of 12.3% and 26.3%% of the total revenue, respectively. Purchases from the Group's largest supplier and five largest suppliers accounted for approximately of 23.6% and 64.7% of the total purchases for the year ended 31 December 2019, 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 are set out in note 42 to the consolidated financial statements of this annual report.

PERMITTED INDEMNITY PROVISION

After the Listing and during the year ended 31 December 2019, a permitted indemnity provision as required by the Companies Ordinance (Chapter 622, 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 2019 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

KONG Linglei
Chairman

Hong Kong
30 March 2020

CORPORATE GOVERNANCE REPORT

The Board hereby presents this corporate governance report in the Group's annual report for the year ended 31 December 2019.

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.

This report describes the Company's corporate governance practices and structures that were in place during the financial year ended 31 December 2019, 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.

Since the Listing Date and up to 31 December 2019, 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.

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.

All the Directors confirmed, upon specific enquiry made, that they have complied with the Model Code since the Listing Date 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 eight Directors, including four executive Directors, one non-executive director and three independent non-executive Directors. As at the date of this report, the Board comprises the followings Directors:

Executive Directors

Mr. Kong Linglei *(Chairman)*
Mr. Guo Lei *(Chief executive officer)*
Mr. Xu Jianjun
Mr. Yang Shufeng

Non-executive Director

Ms. Zhao Xuelian *(Appointed on 31 March 2020)*

Independent Non-executive Directors

Mr. Liu Fengyuan
Mr. Ding Xiaodong
Mr. Ma Changcheng

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 period from the Listing Date to 31 December 2019, 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.

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 2019, 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. Kong Linglei currently serves as the chairman of the Board and Mr. Guo Lei currently serves as the chief executive officer of the Company. The roles of the chairman and the chief executive officer are separate and exercised by different individuals. Such segregation of two important roles of the Company ensures a clear distinction between the management of the Board and the management of the business operation of the Company.

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.

All directors 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.

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.

The Audit Committee consists of three members, namely Mr. Ding Xiaodong, Mr. Liu Fengyuan and Mr. Ma Changcheng. 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.

No Audit Committee meeting was held during the year ended 31 December 2019 as the Audit Committee was only established on 19 November 2019 and the functions of the Audit Committee only became effective upon the successful listing of the Shares on 18 December 2019.

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 three members, namely Mr. Ma Changcheng, Mr. Kong Linglei and Mr. Liu Fengyuan. Mr. Ma Changcheng, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee.

No Remuneration Committee meeting was held during the year ended 31 December 2019 as the Remuneration Committee was only established on 19 November 2019 and the functions of the Remuneration Committee only became effective upon the successful listing of the Shares on 18 December 2019.

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 three members, namely Mr. Kong Linglei, Mr. Liu Fengyuan and Mr. Ma Changcheng. Mr. Kong Linglei, our Chairman and executive Director, has been appointed as the chairman of the Nomination Committee.

The work performed by the Nomination Committee during the year ended 31 December 2019 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.

No Nomination Committee meeting was held during the year ended 31 December 2019 as the Nomination Committee was only established on 19 November 2019 and the functions of the Nomination Committee only became effective upon the successful listing of the Shares on 18 December 2019.

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 can be improved given its current composition of all male Directors. As disclosed in the Prospectus, the Nomination Committee will use its best efforts, within three years from the Listing, to identify and recommend at least one suitable female candidate as our senior management or Director for our Board's consideration by the end of 2022, applying the measurable objectives set out above and subject to the Directors (i) being satisfied with the competence and experience of the relevant candidate after a reasonable review of the necessary selection criteria in conjunction with the future development plan of our Group; and (ii) satisfying their fiduciary duties to act in the best interest of our Company and our Shareholders and a whole when making the relevant appointment. As at the date of this report, the Nomination Committee has yet to be able to identify such candidate.

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.

There were two meetings held by the Board during the year ended 31 December 2019 and all of the two meetings were held before the listing of the Shares on 18 December 2019. The attendance of each Director for the Board meetings held during the year ended 31 December 2019 is set out in the following table:

Directors	**Number of Board meetings attended/Number of Board meetings eligible to attend**
Executive Directors	
Mr. Kong Linglei *(Chairman)*	3/3
Mr. Guo Lei *(Chief executive officer)*	2/2
Mr. Xu Jianjun	2/2
Mr. Yang Shufeng	2/2
Independent non-executive Directors	
Mr. Liu Fengyuan	1/1
Mr. Ding Xiaodong	1/1
Mr. Ma Changcheng	1/1

The Company has not held any general meetings during the year ended 31 December 2019.

AUDITOR'S REMUNERATION

For the year ended 31 December 2019, 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	2,180
Non-audit services	4,000
	6,180

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 2019 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.

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 2019, 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 2019.

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

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 is the company secretary of the Company. 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 2019, 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 629A, 6th Floor, Star House, No. 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong for the attention of the company secretary of the Company.

Procedure for convene an extraordinary general meeting

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 in such requisition; and 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 requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(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.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2019, the shareholder has passed a written resolution on 19 November 2019 approving the adoption of amended and restated memorandum and articles of association of the Company. Save as the aforesaid, there has been no changes in the constitutional documents of the Company.

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

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF MAIKE TUBE INDUSTRY HOLDINGS LIMITED
(迈科管业控股有限公司)
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Maike Tube Industry Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 123, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the 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 2019, 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 ("HKSAs") 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	How our audit addressed the key audit matter
Impairment of trade receivables	
As at 31 December 2019, the Group has trade receivables amounting to RMB185,905,000, net of allowance amounting to RMB6,003,000. 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.	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 expected credit losses; • Evaluating the model used by management in determining the allowance for expected credit losses; • Testing the integrity of information used by management to develop the provision matrix, including trade receivables aging analysis as at 31 December 2019, 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 2019, 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); • Obtaining confirmations and evidences of subsequent settlements on a sample basis for trade receivable balances.

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 HKSAs 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.

As part of an audit in accordance with HKSAs, 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.

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, related safeguards.

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 Wong Shun Yu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5	**1,125,281**	1,214,839
Cost of sales		**(863,881)**	(935,687)
Gross profit		**261,400**	279,152
Other income	7	**1,849**	399
Other gains and losses	7	**11,596**	1,090
Distribution and selling expenses		**(64,031)**	(65,909)
Administrative expenses		**(30,312)**	(26,248)
Research and development costs		**(45,831)**	(49,990)
Impairment losses on trade receivables and contract assets	8	**(278)**	(92)
Finance costs	9	**(12,547)**	(14,464)
Listing expenses		**(17,723)**	(4,523)
Profit before taxation	10	**104,123**	119,415
Taxation charge	11	**(14,450)**	(17,944)
Profit for the year		**89,673**	101,471
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operation		**572**	–
Total comprehensive income for the year		**90,245**	101,471
Profit for the year attributable to:			
— Owners of the Company		**77,342**	52,146
— Non-controlling interests		**12,331**	49,325
		89,673	101,471
Total comprehensive income for the year attributable to:			
— Owners of the Company		**77,994**	52,146
— Non-controlling interests		**12,251**	49,325
		90,245	101,471
Earnings per share			
— Basic (RMB yuan)	13	**0.265**	0.303

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Non-current assets			
Property, plant and equipment	14	**226,253**	208,386
Deferred tax assets	15	**1,233**	1,799
Deposits for plant and equipment		**7,345**	4,221
		234,831	214,406
Current assets			
Inventories	16	**194,856**	177,827
Trade receivables	17	**185,905**	165,181
Trade receivables backed by bills	18	**76,232**	50,170
Contract assets	20	**16,367**	18,774
Deposits, prepayments and other receivables	21	**70,901**	40,722
Amounts due from related parties	22	**6,497**	4,392
Financial assets at fair value through profit or loss ("FVTPL")	23	**9,500**	86,843
Pledged bank deposits	24	**1,000**	3,284
Time deposits	24	**134,370**	—
Bank balances and cash	24	**80,738**	46,450
		776,366	593,643
Current liabilities			
Trade payables	25	**42,381**	51,570
Contract liabilities	26	**25,388**	16,402
Derivative financial instruments	27	**—**	179
Refund liabilities	28	**7,321**	15,781
Other payables and accrued charges	29	**34,803**	25,996
Amount due to a related party	22	**500**	11,559
Provisions		**1,489**	1,337
Tax liabilities		**2,860**	4,094
Borrowings	30	**237,491**	300,247
Lease liabilities	31	**843**	730
		353,076	427,895
Net current assets		**423,290**	165,748
Total assets less current liabilities		**658,121**	380,154

	NOTES	2019 RMB'000	2018 RMB'000
Non-current liability			
Lease liabilities	31	779	1,622
Net assets		657,342	378,532
Capital and reserves			
Share capital	32	304	86,300
Reserves		657,038	108,493
Attributable to owners of the Company		657,342	194,793
Non-controlling interests		–	183,739
Total equity		657,342	378,532

The consolidated financial statements on pages 53 to 123 were approved and authorised for issue by the board of directors on 30 March 2020.

XU JIAN JUN
DIRECTOR

GUO LEI
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note a)	Translation reserve RMB'000	Retained profits RMB'000	Sub-total equity RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2018	86,150	–	14,684	5,635	–	35,855	142,324	134,737	277,061
Profit and total comprehensive income for the year	–	–	–	–	–	52,146	52,146	49,325	101,471
Transfer to statutory surplus reserve	–	–	–	5,215	–	(5,215)	–	–	–
Change in the shareholding in Jinan Mech without losing control	150	–	173	–	–	–	323	(323)	–
At 31 December 2018	86,300	–	14,857	10,850	–	82,786	194,793	183,739	378,532
Profit for the year	–	–	–	–	–	77,342	77,342	12,331	89,673
Other comprehensive income for the year	–	–	–	–	652	–	652	(80)	572
Total comprehensive income for the year	–	–	–	–	652	77,342	77,994	12,251	90,245
Arising from Reorganisation (as defined in note 1) (note c)	(86,300)	–	108,403	–	–	–	22,103	(184,773)	(162,670)
Transfer to statutory surplus reserve	–	–	–	8,018	–	(8,018)	–	–	–
Issue of shares on 18 April 2019 and acquiring the shareholding in Jinan Mech (note 32)	–	11,217	–	–	–	–	11,217	(11,217)	–
Issue of shares upon Capitalisation Issue (note 32 note iii)	235	(235)	–	–	–	–	–	–	–
Issue of shares by ways of global offering (note 32 note iv)	69	201,724	–	–	–	–	201,793	–	201,793
Acquisition of remaining interest in Jinan mech on 16 October 2019 (note c)	–	162,670	–	–	–	–	162,670	–	162,670
Transaction costs attributable to issue of new shares	–	(13,228)	–	–	–	–	(13,228)	–	(13,228)
At 31 December 2019	**304**	**362,148**	**123,260**	**18,868**	**652**	**152,110**	**657,342**	**–**	**657,342**

Notes:

(a) As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.

(b) Other reserve represented (i) acquisition of additional interest in Jinan Ma Steel (as defined in note 1) related to 2016 Ma Steel Acquisition and additional interest in Jinan Mech (as defined in note 1) related to 2016 Jinan Mech Acquisition; (ii) the difference between the nominal value of shares or equity interests paid/received by Mr. Kong (as defined in note 1) and the share of net assets by non-controlling interests for each acquisition or disposal of shares/equity interests in Jinan Mech and Jinan Ma Steel; and (iii) the difference between the consideration paid to non-controlling interests in acquiring the remaining share capital of Jinan Mech and the share of net assets of Jinan Mech by non-controlling interests upon Reorganisation (as defined in note 1).

(c) In 2019, Mr. Kong, Tong Chuang Sheng De Investment and Management Partnership, Tong Chuang Shun De Investment and Management Partnership, Tong Chuang Chang De Investment and Management Partnership and Tong Chuang Xing De Investment and Management Partnership transferred the remaining equity interest in Jinan Mech to Tube Industry Investments Limited which is indirectly wholly-owned by the Company for a cash consideration of RMB162,670,000 upon Reorganisation (as defined in note 1).

The amounts were fully settled by Tube Industry Investments Limited through borrowing a loan amounting to approximately RMB162.7 million from some of the shareholders of the Company (as defined in note 1) including Ying Stone (as defined in note 1), Tong Chuang Sheng De Limited, Tong Chuang Shun De Limited, Tong Chuang Xing De Limited and Tong Chuang Chang De Limited. The loan was unsecured and interest free, and was fully settled by the Tube Industry Investments Limited by allotting and issuing 10,000 ordinary shares to Guan Dao Investments Limited on 16 October 2019.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit for the year	**104,123**	119,415
Adjustments for:		
Impairment losses on trade receivables and contract assets	**278**	92
Finance costs	**12,547**	14,464
Depreciation of property, plant and equipment	**19,572**	17,775
Losses on disposals of property, plant and equipment	**47**	1,870
Fair value change of foreign currency forward contracts	**643**	(643)
Fair value change of derivative financial instruments	**(179)**	179
Write-down of inventories	**366**	3,457
Fair value change on structured bank deposits	**(1,176)**	(267)
Interest income	**(179)**	(117)
Operating cash flows before movements in working capital	**136,042**	156,225
(Increase) decrease in inventories	**(17,395)**	475
Increase in trade receivables	**(20,444)**	(2,590)
Increase in trade receivables backed by bills	**(26,062)**	(2,267)
Decrease (increase) in contract assets	**1,849**	(11,924)
(Increase) decrease in deposits, prepayments and other receivables	**(33,526)**	5,870
(Increase) decrease in amounts due from related parties	**(2,105)**	2,409
Decrease in trade payables	**(8,617)**	(33,546)
Increase in contract liabilities	**8,986**	11,189
Increase in other payables and accrued charges	**8,807**	5,605
(Decrease) increase in refund liabilities	**(8,460)**	9,436
Increase in provisions	**152**	127
Decrease in amount due to a related party	**(11,059)**	(15,192)
Cash generated from operations	**28,168**	125,817
Income taxes paid	**(15,118)**	(14,655)
Net cash generated from operating activities	**13,050**	111,162

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(31,712)**	(24,731)
Deposits for plant and equipment	**(7,345)**	(4,221)
Proceeds from disposals of property, plant and equipment	**286**	—
Receipts from structured bank deposits	**1,176**	267
Interest received	**179**	117
Placement of pledged bank deposits	**(7,912)**	(3,284)
Withdrawal of pledged bank deposits	**10,196**	12,009
Placement of structured bank deposits	**(214,800)**	(233,450)
Withdrawal of structured bank deposits	**291,500**	151,250
Net cash generated from (used in) investing activities	**41,568**	(102,043)
FINANCING ACTIVITIES		
Issue costs paid	**(11,720)**	(1,508)
Borrowings raised	**317,200**	300,000
Repayment of borrowings	**(380,000)**	(300,000)
Proceeds from capital injection from shareholders	**173,887**	—
Proceeds from issue of shares	**201,793**	—
Repayments to former shareholders	**(173,887)**	—
Payment of lease liabilities	**(789)**	(68)
Interest paid	**(12,444)**	(14,882)
Net cash generated from (used in) financing activities	**114,040**	(16,458)
Net increase (decrease) in cash and cash equivalents	**168,658**	(7,339)
Cash and cash equivalents at 1 January	**46,450**	53,789
Cash and cash equivalents at 31 December, represented by bank balances and cash	**215,108**	46,450

1. GENERAL

Maike Tube Industry Holdings Limited (the "Company") was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 1 February 2019. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2019. The immediate holding company is Ying Stone Holdings Limited ("Ying Stone"), which was incorporated in the British Virgin Islands (the "BVI") and entirely owned by Mr. Kong Linglei (孔令磊) ("Mr. Kong"). The addresses of the registered office and the principal place of business of the Company are P.O. BOX 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands and Meigui Zone of Industrial Park, Pingyin County, Jinan, Shandong Province, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the manufacturing of steel pipe products and the prefabricated pipe nipple products. Details of the subsidiaries are disclosed in note 40. The Company and its subsidiaries are collectively referred as the "Group".

Group restructuring and basis of preparation of consolidated financial statements

On 1 January 2016, Mr. Kong owned 28.04% shareholding of Jinan Mech Piping Technology Co., Ltd ("Jinan Mech") and 10% equity interests of Jinan Magang Steel Pipes Manufacturing Company ("Jinan Ma Steel").

During the year ended 31 December 2016, Mr. Kong entered into several sale and purchase agreements with individual equity holders of Jinan Ma Steel, to acquire 86.67% equity interests of Jinan Ma Steel at a cash consideration of RMB52,000,000 ("2016 Jinan Ma Steel Acquisition"). Upon completion of such acquisition, Mr. Kong held 96.67% equity interests in Jinan Ma Steel. The remaining 3.33% equity interests in Jinan Ma Steel were owned by Mr. Kong Xiangcun ("Mr. Kong XC"), who is the father of Mr. Kong. Subsequently, Jinan Mech entered into the sale and purchase agreement with Mr. Kong and Mr. Kong XC to acquire the entire equity interests of Jinan Ma Steel by issuing 58,000,000 shares and 2,000,000 shares of Jinan Mech ("2016 Jinan Mech Acquisition"). Upon the completion of 2016 Jinan Mech Acquisition, Mr. Kong held 51.28% shareholding in Jinan Mech directly and 51.28% equity interests in Jinan Ma Steel indirectly.

1. GENERAL – *continued*

Group restructuring and basis of preparation of consolidated financial statements – *continued*

Although Mr. Kong owned less than 50% ownership in Jinan Mech and Jinan Ma Steel before the completion of 2016 Jinan Ma Steel Acquisition and 2016 Jinan Mech Acquisition, the directors of the Company assessed whether the Group has control over Jinan Mech and Jinan Ma Steel based on whether the Group has the practical ability to direct the relevant activities of Jinan Mech and Jinan Ma Steel unilaterally. The directors of the Company considered Mr. Kong exercises his control over Jinan Mech and Jinan Ma Steel after taking into consideration of the arrangements with Mr. Yin Yuanxiao (陰元曉), Mr. Qi Xiaoyu (亓曉玉) and Mr. Liu Yong (劉勇), three shareholders/equity holders of Jinan Mech and Jinan Ma Steel, which these three shareholders/equity holders agree to follow the decision of Mr. Kong in all shareholders'/equity holders' meetings. These three shareholders/equity holders then owned in aggregation 28.31% shareholding of Jinan Mech before 2016 Jinan Mech Acquisition and 59.21% equity interests of Jinan Ma Steel before 2016 Jinan Ma Steel Acquisition. As Jinan Mech and Jinan Ma Steel were under the common control of Mr. Kong, the financial information of Jinan Mech and Jinan Ma Steel has been prepared under the principles of merger accounting throughout the year ended 31 December 2019 and 2018. Before acquiring the remaining shareholding in Jinan Mech on 6 May 2019, equity interest held by the other shareholders/equity holders (including Mr. Kong XC) in Jinan Mech and Jinan Ma Steel during the year ended 31 December 2019 and 2018 is presented as non-controlling interests in the consolidated financial statements.

Pursuant to the reorganisation (the "Reorganisation") as more fully explained in the paragraph under section headed "History, Reorganisation and Corporate Structure" in the prospectus dated 29 November 2019, the Company became the holding company of the companies now comprising the Group on 6 May 2019. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation has always been under the control of Mr. Kong regardless of the actual date when the Company formally becomes the holding company of the Group, therefore, the Group is regarded as a continuing entity and the consolidated financial statements have been prepared as if the Company had always been the holding company of the Group throughout the year ended 31 December 2018 and 2019.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2018 and 2019 include the results, changes in equity and cash flows of the companies now comprising the Group, as if the group structure has been in existence throughout the year ended 31 December 2018 and 2019, or since the respective dates of incorporation/establishment, where there is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2018 was prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been existence at those dates, taking into account the respective dates of incorporation, where applicable.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has consistently applied HKFRS 16 *Leases* ("HKFRS 16") throughout the two years ended 31 December 2019. The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015–2017 Cycle*

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs which are not yet effective:

HKFRS 17	*Insurance Contracts* [1]
Amendments to HKFRS 3	*Definition of a Business* [2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an investor and its Associate or Joint Venture* [3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material* [4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform* [4]

1 Effective for annual periods beginning on or after 1 January 2021.

2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

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

4 Effective for annual periods beginning on or after 1 January 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the revised Conceptual Framework for Financial Reporting mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – *continued*

New and amendments to HKFRSs in issue but not yet effective – *continued*

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 this 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 within the scope of 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.

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.

The principal accounting policies adopted are set out below.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Basis of consolidation – *continued*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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.

Profit or loss and each component 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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing 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 including reserves 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.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or 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 entities or businesses from the earliest date presented or since the date when the combining entities or 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Revenue from contracts with customers – *continued*

Variable consideration

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

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 all of the following:

(a) 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);

(b) a refund liability; and

(c) an asset (and corresponding adjustment to cost of sales) for its right to recover products from customers.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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 or arising from business combinations on or after the date of initial application, 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.

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 over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leases – *continued*

The Group as a lessee – continued

Right-of-use assets

The cost of right-of-use asset 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.

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 shorter of its estimated useful life and 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Leases – *continued*

The Group as a lessee – continued

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.

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).

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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 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 on a systematic and rational basis in the period in which they become receivable.

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.

3. 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 recognized 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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Taxation – *continued*

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 use 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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Property, plant and equipment – *continued*

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives after taking into account their estimated residual value, 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.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. 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.

3. 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, and 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 addition, corporates assets are allocated to individual cash generating units 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 Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, 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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

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.

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. 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.

3. 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 hold the financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on a 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.

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.

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost subsequently measured at FVTOCI. 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – *continued*

Financial assets – continued

Classification and subsequent measurement of financial assets – *continued*

(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.

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, contract assets, trade receivables backed by bills, deposits and other receivables, pledged bank deposits, time deposits, bank balances and cash and amounts due from related parties) which are subject to impairment 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.

3. 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*

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. Contract assets and trade receivables of aggregate amount for a customer with outstanding significant balances exceeding RMB10,000,000, receivables backed by bills and trade related amounts due from related parties have been assessed individually, the remaining contract assets and trade receivables are assessed collectively using a provision matrix grouped with internal credit rating. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables and the contract assets on the same basis.

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 recognizes 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.

(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; and
- 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.

3. 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.

(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:

3. 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 – *continued*

- 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; or
- 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.

(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 adjusted by 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.

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.

3. 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*

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- 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.

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 gain or 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.

3. SIGNIFICANT ACCOUNTING POLICIES – *continued*

Financial instruments – ***continued***

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity 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.

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 group entities are 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 payables, other payables and accrued charges, refund liabilities, borrowings and amount due to a related party are subsequently measured at amortised cost, using the effective interest method.

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.

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.

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 individual assessment and 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.

5. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods provided by the Group to related companies/external customers, net of related taxes. The following is an analysis of the Group's revenue for the current year:

	2019 RMB'000	2018 RMB'000
Recognised at a point in time:		
Sales of pipe products:		
— ERW steel pipes	**367,038**	350,410
— Standard prefabricated pipe nipples	**286,557**	379,267
— Spiral Submerged Arc Welded steel pipes	**214,776**	292,183
— Customised steel pipes	**201,821**	131,589
— Design and supply assembled piping system	**11,867**	10,774
Sales of unused raw materials	**43,222**	50,616
	1,125,281	1,214,839

The Group's revenue are under fixed price arrangement with the customers. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location and inspected by the customers or the goods have been loaded into shipper's trucks (delivery). Transportation and other related activities that occur before customers obtains control of the related good are considered as fulfilment activities. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The credit term is generally 0 to 180 days upon delivery.

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

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

During the year ended 31 December 2019, 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.

5. REVENUE AND SEGMENTAL INFORMATION – *continued*

Segmental information

The Group's operation is derived from the production and sales of pipe products in the PRC and Vietnam. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("CODM") (i.e. the chief executive officer) reviews the overall results and financial position of the Group as a whole, 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 Year ended 31 December		Non-current assets (note) As at 31 December	
	2019	2018	**2019**	2018
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**618,975**	655,546	**228,194**	212,607
The United States of America ("US")	**205,684**	247,510	**–**	–
Other countries in America (excluding US)	**120,627**	101,215	**–**	–
Other countries in Asia (excluding PRC)	**118,849**	169,760	**5,404**	–
Europe	**17,931**	13,803	**–**	–
Others	**43,215**	27,005	**–**	–
	1,125,281	1,214,839	**233,598**	212,607

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total sales of the Group are as follows:

	2019	2018
	RMB'000	RMB'000
Customer A	**138,115**	80,061

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Mr. Kong was appointed as director of the Company on 1 February 2019 and Guo Lei, Xu Jianjun and Yang Shufeng were appointed as executive directors of the Company on 6 May 2019. Liu Fengyuan, Ding Xiaodong and Ma Changcheng were appointed as independent non-executive directors of the Company on 19 November 2019. 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 2)	Contributions to retirement benefit schemes RMB'000	Total RMB'000
For the year ended 31 December 2019:					
Executive directors					
Mr. Kong	–	–	–	–	–
Guo Lei (note 1)	–	750	462	72	1,284
Xu Jianjun	–	552	406	67	1,025
Yang Shufeng	–	144	129	46	319
Sub-total	–	1,446	997	185	2,628

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

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
Independent non-executive directors					
Mr. Liu Fengyuan	–	11	–	–	11
Mr. Ma Changcheng	–	11	–	–	11
Mr. Ding Xiaodong	–	11	–	–	11
Sub-total	–	33	–	–	33

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

Total					2,661

	Fees RMB'000	Salaries and other benefits RMB'000	Discretionary bonus RMB'000	Contributions to retirement benefit schemes RMB'000	Total RMB'000
For the year ended 31 December 2018:					
Executive directors					
Mr. Kong	–	–	–	–	–
Guo Lei (note 1)	–	564	660	74	1,298
Xu Jianjun	–	559	113	69	741
Yang Shufeng	–	211	19	46	276
Total	–	1,334	792	189	2,315

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

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

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

Note 1: Guo Lei is also the Chief Executive Officer of the Group.

Note 2: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group's performance.

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

Three (2018: three) of the executive directors of the Company were the five highest paid individual during the year. The emoluments of the remaining two highest paid individuals (2018: two) during the year, which were individually less than HK$1,000,000, were as follows:

	2019 **RMB'000**	2018 RMB'000
Salaries and other benefits	**332**	519
Discretionary bonus (note)	**239**	97
Contributions to retirement benefit schemes	**92**	92
	663	708

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:

	2019	2018
Nil to HK$1,000,000	**2**	2

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.

7. OTHER INCOME/OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Other income		
Government grant	1,670	282
Bank interest income	179	117
	1,849	399

	2019 RMB'000	2018 RMB'000
Other gains and losses		
Gain on sales of scrap materials	7,312	7,169
Fair value gains (losses) on financial assets at FVTPL		
— structured bank deposits	1,176	267
— foreign currency forward contracts (note i)	824	(11,735)
Fair value gains (losses) on derivative financial instruments (note ii)	526	(703)
Losses on disposals of property, plant and equipment	(47)	(1,870)
Net exchange gains	1,026	6,094
Others	779	1,868
	11,596	1,090

Notes:

i. During the year ended 31 December 2019, net gains (losses) on US$ to RMB foreign currency forward contracts represented realised gains of RMB824,000 (2018: realised losses of RMB12,378,000) and unrealised losses of nil (2018: unrealised gains of RMB643,000) on changes in fair value of foreign currency forward contracts.

ii. During the year ended 31 December 2019, amount represented net gains (losses) on commodity derivative contracts represented realised gains of RMB526,000 (2018: realised losses of RMB524,000) and unrealised losses of nil (2018: unrealised losses of RMB179,000) arising on changes in fair value of commodity derivative contracts.

8. IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Impairment losses recognised (reversed) on:		
— trade receivables	(280)	11
— contract assets	558	81
	278	92

Details of impairment assessment are set out in note 17.

9. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Finance costs represent interest on:		
— bank borrowings	6,743	124
— other borrowings from a related party	5,434	14,331
— discounted bills	276	—
— lease liabilities	94	9
	12,547	14,464

10. PROFIT BEFORE TAXATION

	2019 RMB'000	2018 RMB'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	2,180	29
Directors' emoluments (note 6)	2,661	2,315
Other staff costs:		
— Salaries and other benefits	61,592	49,750
— Contributions to retirement benefit schemes	10,599	9,616
Less: capitalised in inventories	(45,832)	(36,587)
Total staff costs	26,359	22,779
Depreciation of property, plant and equipment	19,572	17,775
Less: capitalised in inventories	(16,150)	(15,644)
Total depreciation	3,422	2,131
Cost of inventories sold	863,881	935,687
Write-down of inventories (included in cost of inventories sold)	366	3,457

11. TAXATION CHARGE

	2019 RMB'000	2018 RMB'000
PRC Enterprise Income Tax ("EIT"):		
— Current year	13,895	17,742
— (Over) under provisions in prior years	(11)	226
	13,884	17,968
Deferred tax charge (credit) (note 15)	566	(24)
Taxation charge	14,450	17,944

Under the Law of the PRC on Enterprise Income Tax (the "EIT") 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 during the year 2017 and the applicable tax rate is 15% from 1 January 2017 to 31 December 2019.

Jinan Ma Steel was recognised as a High and New Technology Enterprises in the year 2015 and 2018, respectively, and the applicable tax rate is 15% from 1 January 2015 to 31 December 2020.

No provision for income tax has been made for Tube Industry Investments Limited in Hong Kong as there was no estimated assessable profit during the year ended 31 December 2019.

11. TAXATION CHARGE – *continued*

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

Under the tax law in Vietnam, the tax rate of Viet Nam Piping Industries Company Limited is 20%. Viet Nam Piping Industries Company Limited 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 Industries Company Limited enjoyed the 2-years exemption of income tax.

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	**104,123**	119,415
Taxation at PRC EIT rate of 25%	**26,031**	29,854
Tax effect of expenses not deductible for tax purposes	**926**	1,870
Tax deduction on research and development expenses (note)	**(2,346)**	(2,664)
(Over) under provisions in prior years	**(11)**	226
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(287)**	–
Income tax at concessionary rate	**(9,863)**	(11,342)
Taxation charge for the year	**14,450**	17,944

Note: Pursuant to Caishui [2018] circular No.99, Jinan Mech and Jinan Ma Steel enjoy super deduction of 175% (2018: 175%) on qualifying research and development expenditure for the year ended 31 December 2019.

12. DIVIDEND

No dividend was declared or paid by the group entities during both years.

Subsequent to the end of the reporting period, no dividend was paid or declared by the Company since its incorporation.

13. EARNINGS PER SHARE

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

	2019 RMB'000	2018 RMB'000
Earnings:		
Earnings for the purpose of basic earnings per share (profit for the year — attributable to owners of the Company)	77,342	52,146
	2019 '000	2018 '000
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	291,449	172,376

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue has been effective on 1 January 2018.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Construction in progress	Buildings	Electronic equipment	Machinery	Office and other equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2018	49,062	2,473	101,602	1,616	101,805	2,358	620	259,536
Additions	3,839	12,995	–	1,135	5,727	4,075	76	27,847
Disposals	–	–	–	–	(2,909)	(15)	–	(2,924)
At 31 December 2018	52,901	15,468	101,602	2,751	104,623	6,418	696	284,459
Additions	–	6,631	1,839	2,882	22,234	770	3,416	37,772
Disposals	–	–	–	(182)	(622)	(16)	–	(820)
Transfer	–	(12,956)	8,992	–	3,964	–	–	–
At 31 December 2019	**52,901**	**9,143**	**112,433**	**5,451**	**130,199**	**7,172**	**4,112**	**321,411**
ACCUMULATED DEPRECIATION								
At 1 January 2018	3,996	–	17,815	1,405	34,226	1,485	425	59,352
Provided for the year	1,064	–	5,391	357	10,437	395	131	17,775
Eliminated on disposals	–	–	–	–	(1,043)	(11)	–	(1,054)
At 31 December 2018	5,060	–	23,206	1,762	43,620	1,869	556	76,073
Provided for the year	1,814	–	5,595	538	10,675	753	197	19,572
Eliminated on disposals	–	–	–	(168)	(304)	(15)	–	(487)
At 31 December 2019	**6,874**	**–**	**28,801**	**2,132**	**53,991**	**2,607**	**753**	**95,158**
CARRYING AMOUNTS								
At 31 December 2019	46,027	9,143	83,632	3,319	76,208	4,565	3,359	226,253
At 31 December 2018	47,841	15,468	78,396	989	61,003	4,549	140	208,386

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	19% 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

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

The legal titles of the buildings with aggregate carrying value of RMB13,064,000 (2018: RMB13,629,000) have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the management of the Group, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of the buildings have been transferred to the Group.

The Group has pledged buildings with the carrying amount of RMB13,040,000 (2018: RMB37,450,000) 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:

	2019 RMB'000	2018 RMB'000
Carrying amounts		
Land	44,486	45,496
Plant	1,541	2,345
	46,027	47,841
Depreciation recognised in profit or loss		
Land	1,010	998
Plant	804	66
	1,814	1,064
Total cash outflow for leases	824	68

The Group has pledged rights-of-use assets with the carrying amount of RMB706,000 (2018: RMB43,351,000) to secure general banking facilities granted to the Group respectively.

14. PROPERTY, PLANT AND EQUIPMENT – *continued*

In addition, lease liabilities of RMB1,622,000 are recognised with related right-of-use assets of RMB1,541,000 as at 31 December 2019. 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 followings are the major deferred tax assets recognised by the Group and the movement thereon, during both years.

	Impairment losses of trade receivables and contract assets RMB'000	**Impairment losses of inventories** RMB'000	**Total** RMB'000
At 1 January 2018	1,476	299	1,775
(Charge) credit to profit or loss	(495)	519	24
At 31 December 2018	981	818	1,799
Credit (charge) to profit or loss	41	(607)	(566)
At 31 December 2019	1,022	211	1,233

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB169 million (2018: RMB83 million) as at 31 December 2019. No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

16. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials	**77,706**	72,464
Work in progress	**43,459**	50,925
Finished goods	**73,691**	54,438
	194,856	177,827

17. TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	191,908	171,464
Less: allowance of impairment loss	(6,003)	(6,283)
Total trade receivables	185,905	165,181

The Group allows credit period of 0 to 180 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.

	2019 RMB'000	2018 RMB'000
0–60 days	128,970	108,918
61–180 days	52,329	50,498
181 days–1 year	3,769	995
Over 1 year	837	4,770
	185,905	165,181

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. Apart of debtors with credit impaired and customers with outstanding significant trade receivables exceeding RMB10,000,000 and relevant contract assets, 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.

17. TRADE RECEIVABLES – *continued*

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

Debtors with credit-impaired trade receivables with gross carrying amounts of nil (2018: RMB1,256,000), customers with outstanding significant trade receivables exceeding RMB10,000,000 with gross carrying amounts of RMB32,610,000 (2018: RMB44,214,000), and relevant contract assets with gross carrying amounts of RMB3,800,000 (2018: RMB7,210,000), as at 31 December 2019 were assessed individually.

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).

			As at 31 December 2019		As at 31 December 2018	
Internal credit rating	Average loss rate		Gross carrying amounts of trade receivables	Gross carrying amounts of contract assets	Gross carrying amounts of trade receivables	Gross carrying amounts of contract assets
	2019	2018	RMB'000	RMB'000	RMB'000	RMB'000
Group A	0.50%	0.50%	64,623	3,669	83,057	10,691
Group B	2.00%	2.00%	67,873	5,258	15,752	44
Group C	15.00%	15.00%	26,802	4,450	27,185	1,081
			159,298	13,377	125,994	11,816

17. TRADE RECEIVABLES – *continued*

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 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB65,337,000 (2018: RMB22,384,000) which are past due as at the reporting date. Out of the past due balances, RMB9,899,000 (2018:RMB15,380,000) 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 with the Group and recurring overdue records of these customers with satisfactory settlement history.

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 2018	3,352	6,142	171
Changes due to financial instruments recognised as at 1 January:			
— Impairment reversed	(2,511)	(1,664)	(91)
— Amounts written off as uncollectible	—	(3,222)	—
New financial assets originated	4,186	—	172
As at 31 December 2018	5,027	1,256	252
Changes due to financial instruments recognised as at 1 January:			
— Impairment recognised	—	—	—
— Impairment reversed	(4,880)	(1,256)	(151)
New financial assets originated	5,856	—	709
As at 31 December 2019	**6,003**	**—**	**810**

18. TRADE RECEIVABLES BACKED BY BILLS

	2019 RMB'000	2018 RMB'000
Trade receivables backed by bills	76,232	50,170

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.

	2019 RMB'000	2018 RMB'000
0–180 days	75,492	46,020
181 days-1 year	740	4,150
	76,232	50,170

As at 31 December 2019, the Group has pledged trade receivables backed by bills amounted to RMB18,200,000 (2018: 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 or banks by endorsing or discounting 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, the payables to suppliers and borrowings from the banks. These financial assets are carried at amortised cost in the consolidated statement of financial position.

	2019 RMB'000	2018 RMB'000
Carrying amount of transferred assets	42,313	29,054
Carrying amount of associated liabilities	(42,313)	(29,054)
Net position	–	–

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

20. CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
Retention receivables on sales of pipe products	**17,177**	19,026
Less: allowance for impairment loss	**(810)**	(252)
	16,367	18,774

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 defects liability period, at the end of the reporting period as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**11,381**	15,069
Over one year	**4,986**	3,705
	16,367	18,774

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

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Advance payment for materials	63,204	35,688
Other tax recoverable	4,512	852
Deposits paid to suppliers	1,349	656
Prepayments	1,084	1,544
Deferred issue costs	–	1,508
Other receivables	752	474
	70,901	40,722

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 and makes periodic individual assessment on the recoverability of 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.

22. AMOUNT(S) DUE FROM RELATED PARTIES/TO A RELATED PARTY

Amounts due from related parties

Details of amounts due from related parties which are trade nature, unsecured, interest-free and repayable on demand are as follows:

	2019 RMB'000	2018 RMB'000
Meide Group Co., Ltd. ("Meide")	5,326	2,920
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)	879	717
Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 ("Linyi Meide") (note)	292	695
Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 ("Meiyuan Renewable") (note)	–	60
	6,497	4,392

Note: Subsidiaries of Meide.

22. AMOUNT(S) DUE FROM RELATED PARTIES/TO A RELATED PARTY – *continued*

The Group allows credit period of 60 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.

	2019 RMB'000	2018 RMB'000
0–60 days	6,497	4,392

There is no overdue of amounts due from related parties as at the reporting period. The Group did not hold any collateral over these balances.

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.

Amount due to a related party

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

	2019 RMB'000	2018 RMB'000
Meide	500	11,559

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:

	2019 RMB'000	2018 RMB'000
0–60 days	–	1,237
181–360 days	500	–
Over 360 days	–	10,322
	500	11,559

23. FINANCIAL ASSETS AT FVTPL

	2019 RMB'000	2018 RMB'000
Structured bank deposits (Note i)	9,500	86,200
Foreign currency forward contracts (Note ii)	—	643
	9,500	86,843

Notes:

(i) As at the end of the reporting period, the structured bank deposits are placed with banks in the PRC and are short-term investments with no predetermined or guaranteed return and are not principal protected. The return of these deposits are determined by reference to the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets. The deposits could be withdrawn at the Group's discretion and are subject to early termination option of the issuing banks at the price of the principal outstanding plus the return of underlying portfolio up to the date of withdrawal/early termination.

(ii) During the year ended 31 December 2018, 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$9,500,000 in aggregate. The future rate for conversion of US$ to RMB is ranged from 6.8710 to 6.9507. The duration of these foreign currency forward contracts was ranged from one month to four months. These contracts were measured at fair value as at 31 December 2018 and fully settled in 2019.

24. BANK BALANCES AND CASH, PLEDGED BANK DEPOSITS AND TIME DEPOSITS

	2019 RMB'000	2018 RMB'000
Pledged bank deposits (note i)	1,000	3,284
Bank balances and cash (note ii)	80,738	46,450
Time deposits (note iii)	134,370	—
	216,108	49,734

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 at 1.55% (2018: 0.3%) per annum.

(ii) Bank balances and cash 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 bank balances and cash carried interest at prevailing market rate of an average interest rate at 0.3% (2018: 0.3%) per annum.

(iii) As at 31 December 2019, time deposits represented bank deposits placed in Hong Kong and carried the fixed interest rate of 2.2% per annum with maturity on 10 January 2020.

25. TRADE PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	42,381	51,570

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:

	2019 RMB'000	2018 RMB'000
0–30 days	30,097	24,120
31–60 days	2,545	7,755
61–120 days	3,771	7,720
121–180 days	3,135	5,398
181–360 days	952	5,346
Over 360 days	1,881	1,231
	42,381	51,570

26. CONTRACT LIABILITIES

The amounts consist of advance payments from customers for goods. The amounts of contract liabilities as at 1 January 2018 and 31 December 2018, which are RMB5,213,000 and RMB16,402,000, were recognised as revenue during the years ended 31 December 2018 and 2019.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2019 RMB'000	2018 RMB'000
Commodity derivative contracts	–	179

Note: As at 31 December 2018, the 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. The commodity derivative contract was fully settled and expired in 2019.

27. DERIVATIVE FINANCIAL INSTRUMENTS – *continued*

Major terms of the commodity derivative contracts outstanding at 31 December 2018 was set out below:

Contract price	Standard trading unit	Total unit	Maturity date
Commodity derivative contract:			
Buying at price of RMB3,523 per ton	10 tones	100	15 May 2019

28. REFUND LIABILITIES

	2019 RMB'000	2018 RMB'000
Arising from retrospective volume rebates to customers	7,321	15,781

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

29. OTHER PAYABLES AND ACCRUED CHARGES

	2019 RMB'000	2018 RMB'000
Staff costs payable	9,034	4,840
Other tax payable	5,150	4,969
Transportation cost payable	3,643	4,792
Deposits received from suppliers	1,824	1,079
Guarantee receipts from staff on trade receivables (note)	5,902	5,526
Government grant received	3,022	1,247
Accrued charges	5,296	3,111
Agency fee payable	932	432
	34,803	25,996

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.

30. BORROWINGS

	2019 RMB'000	2018 RMB'000
Secured bank borrowings (note a)	**30,040**	30,025
Unsecured bank borrowings (note b)	**189,251**	—
Unsecured other borrowings (note c)	**—**	270,222
Discounted bills borrowings (note d)	**18,200**	—
	237,491	300,247
Carrying amounts of borrowings:		
— repayable within one year	**237,491**	300,247

Notes:

a As at 31 December 2019, the secured bank borrowings carried variable interest rate at benchmark lending rate of the PRC plus 0.2%, approximately 4.55% (2018: 4.80%) per annum.

b As at 31 December 2019, the unsecured bank borrowings carried variable interest rate at benchmark lending rate of the PRC plus 0.04%, approximately 4.39% per annum.

c The other borrowings from Meide through a financial institution which carried fixed interest rates ranging from 4.35% to 4.80% per annum during the year 2018. Mr. Kong owned 35.49% equity interests in Meide. He also obtained the control of Meide since 2017. During the current year, the other borrowings from Meide were repaid by the Group in 2019.

d As at 31 December 2019, the discounted bills borrowings carried fixed interest rate at 2.88% per annum.

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

31. LEASE LIABILITIES

	2019 RMB'000	2018 RMB'000
Lease liabilities payable:		
— within one year	843	730
— more than one year but not exceeding two years	779	808
— more than two years but not exceeding five years	—	814
	1,622	2,352
Less: Amount due for settlement with 12 months shown under current liabilities	843	730
Amounts due for settlement after 12 months shown under non-current liabilities	779	1,622

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 RMB413,000.

32. SHARE CAPITAL

As at 1 January 2018 and 31 December 2018, the share capital represented the share capital of Jinan Mech attributable to owners of the Company.

The share capital as at 31 December 2019 represented the issued share capital of the Company.

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

	Number of shares	Amount US$	US$'000	Equivalent amount to RMB'000
Ordinary Shares of US$0.0001 each				
Authorised:				
At 1 February 2019 (date of incorporation) and 31 December 2019	500,000,000	50,000	50	335
Issued and fully paid				
At 1 February 2019 (date of incorporation) (note i)	16,267	2	—	—
Issue of shares on 18 April 2019 (note ii)	503	—	—	—
Capitalisation Issue (note iii)	335,383,230	33,538	34	235
Issue of new shares by ways of global offering (note iv)	98,400,000	9,840	10	69
At 31 December 2019	433,800,000	43,380	44	304

32. SHARE CAPITAL – *continued*

Notes:

i. The Company was incorporated on 1 February 2019 and 16,267 Shares were allotted and issued to the initial subscriber.

ii. Pursuant to the equity transfer agreement dated 5 March 2019, Tong Chuang Sheng De Investment and Management Partnership sold 2.999% equity interest in Jinan Mech to Tube Industry Investments Limited, which is wholly-owned by Guan Dao Investments Limited, which was then wholly-owned by Mr. Meining at a consideration of RMB11,217,000 which was fully settled on 3 April 2019.

Pursuant to the share purchase agreement dated 18 April 2019, the Company acquired the entire issued share capital of Guan Dao Investments Limited, a company wholly-owned by Mr. Meining and in exchange, the Company issued 503 Shares to Meining Investments Limited, a company wholly-owned by Mr. Meining, representing 2.999% of the then issued share capital as consideration.

Amount of US$0.0503 (equivalent to RMB nil) was recorded in share capital, which represented 2.999% of equity interest of the Company and the remaining amount of RMB11,217,000 was recorded in share premium.

iii. On 18 December 2019, the Company capitalised the sum of US$33,538.3 (approximately equivalent to RMB235,000) standing to the credit of the share premium account of the Company and applied the amount towards paying up in full 335,383,230 shares of nominal value of US$0.0001 each for allotment to the shareholders as appearing on the register of members of the Company immediately before the listing of the shares of the Company on the Stock Exchange ("Capitalisation Issue").

iv. On 18 December 2019, the Company issued 98,400,000 ordinary shares of nominal value of US$0.0001 each pursuant to the global offering at the price of HK$2.28 per ordinary share and the Company's shares were listed on the Stock Exchange on the same date.

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.

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 2019 and 2018:

Name of relate company	Nature of transactions	2019 RMB'000	2018 RMB'000
Meide	Sales of pipe products	27,485	78,124
	Sales of scrap materials	12,917	13,251
	Purchase of inventories	367	1,237
	Interest expense	5,434	14,331
Linyi Meide Gengchen	Sales of pipe products	1,676	14,121
Linyi Meide	Sales of pipe products	1,620	766
Meiyuan Renewable	Sales of pipe products	46	52

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

Compensation of key management personnel

During the year ended 31 December 2019, the remuneration of directors of the Company and other members of key management were as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	2,163	2,226
Discretionary bonus	1,454	888
Contributions to retirement benefit schemes	409	366
	4,026	3,480

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.

	2019 RMB'000	2018 RMB'000
Property, plant and equipment	13,040	37,450
Right-of-use assets	706	43,351
Trade receivables backed by bills	18,200	2,000
Pledged bank deposits	1,000	3,284
	32,946	86,085

36. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
— acquisition of property, plant and equipment	**14,954**	3,823

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.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
Financial assets at FVTPL		
— Structured bank deposits	**9,500**	86,200
— Foreign currency forward contracts	**—**	643
Financial assets at amortised costs	**486,843**	270,607
Financial liabilities		
Amortised costs	**305,290**	394,097
Derivative financial instruments	**—**	179

38. FINANCIAL INSTRUMENTS – *continued*

(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, structured bank deposits, bank balances and cash, time deposits, amount(s) due from related parties/to a related party, trade payables, other payables and accrued charges, derivative financial instruments, refund liabilities and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (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.

(i) Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to borrowings (note 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 30).

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.

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.

If interest rates have been 50 (2018:50) basis points higher/lower for variable-rate bank borrowings, the Group's post-tax profit would decrease/increase by RMB932,000 (2018: RMB128,000).

38. FINANCIAL INSTRUMENTS – *continued*

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

(i) Market risk – continued

Foreign currency risk

Certain bank balances, time deposits, 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:

	2019		2018	
	US$	**HK$**	US$	HK$
	RMB'000	**RMB'000**	RMB'000	RMB'000
Bank balances and cash	**30,561**	**40,190**	30,096	–
Time deposits	**–**	**134,370**	–	–
Trade receivables	**70,967**	**–**	63,334	–
Trade payables	**–**	**–**	134	–

Sensitivity analysis

Sensitivity analysis of strengthening 5% (2018: 5%) in functional currency of the Group (i.e. RMB) against US$ and HK$ resulted a decrease in post-tax profit of RMB4,343,000 and RMB8,493,000 (2018: RMB3,965,000 and nil) 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.

38. FINANCIAL INSTRUMENTS – *continued*

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

(ii) 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, bank balances and cash and time deposits. 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 individual assessment or provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bill receivables 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.

The Group's financial assets at FVTPL are placed with state-owned banks or commercial banks with high credit ratings assigned by international credit-rating agencies in the Mainland China with aggregate gross carrying amounts RMB9,500,000 (2018: RMB86,200,000) as at 31 December 2019. Therefore, the credit risk on financial assets at FVTPL is limited.

38. FINANCIAL INSTRUMENTS – *continued*

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

(ii) Credit risk – continued

At 31 December 2019, the Group had a concentration of credit risk as the largest customer and the top five trade debtors accounted for approximately 11.60% and 28.01% (2018: 18.29% and 40.80%) 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 as well as individual 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.

(iii) 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.

38. FINANCIAL INSTRUMENTS – *continued*

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

(iii) Liquidity risk – continued

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities and lease 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.

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 %	On demand RMB'000	1–3 months RMB'000	4–12 months RMB'000	1–5 years RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount RMB'000
As at 31 December 2019							
Non-derivative financial liabilities and lease liabilities							
Trade payables	N/A	42,381	–	–	–	42,381	42,381
Refund liabilities	N/A	7,321	–	–	–	7,321	7,321
Other payables and accrued charges	N/A	17,597	–	–	–	17,597	17,597
Amount due to a related party	N/A	500	–	–	–	500	500
Fixed-rate bank borrowings	2.88	–	16,200	2,000	–	18,200	18,200
Variable-rate bank borrowings	4.44	–	101,230	122,294	–	223,524	219,291
Lease liabilities	4.80	–	216	649	830	1,695	1,622
		67,799	117,646	124,943	830	311,218	306,912
As at 31 December 2018							
Non-derivative financial liabilities and lease liabilities							
Trade payables	N/A	51,570	–	–	–	51,570	51,570
Refund liabilities	N/A	15,781	–	–	–	15,781	15,781
Other payables and accrued charges	N/A	14,940	–	–	–	14,940	14,940
Amount due to a related party	N/A	11,559	–	–	–	11,559	11,559
Fixed-rate other borrowings	4.55	–	–	279,467	–	279,467	270,222
Variable-rate bank borrowings	4.80	–	–	30,625	–	30,625	30,025
Lease liabilities	4.80	–	206	618	1,695	2,519	2,352
		93,850	206	310,710	1,695	406,461	396,449

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.

(i) 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 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 are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31.12.2019	Fair value as at 31.12.2018	Fair value hierarchy	Basis of fair value measurement	Significant unobservable input	Relationship of unobservable inputs to fair value
Commodity derivative contracts at FVTPL	N/A	Liabilities: RMB179,000	Level 1	Quoted bid prices in an Shanghai Futures Exchange	N/A	N/A
Foreign currency forwards contracts at FVTPL	N/A	Assets RMB643,000	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
Structured bank deposits at FVTPL	RMB 9,500,000	RMB 86,200,000	Level 3	Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties.	Estimated return	The higher the estimated return, the higher the fair value and vice versa

Note:

A 5% decrease in the estimated return rates holding all other variables constant would decrease the carrying amount of the structured bank deposits at FVTPL by RMB1,000 (2018: RMB9,000) as at 31 December 2019.

A 5% increase in the estimated return rates holding all other variables constant would increase the carrying amount of the structured bank deposits at FVTPL by RMB1,000 (2018: RMB9,000) as at 31 December 2019.

38. FINANCIAL INSTRUMENTS – *continued*

(c) Fair value measurement – *continued*

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

Reconciliation of Level 3 Measurements

During the year ended 31 December 2019 and 2018, the following table represents the reconciliation of Level 3 Measurements:

	Structured bank deposits at FVTPL RMB'000
At 1 January 2018	4,000
Purchase	233,450
Redemption/disposal	(151,517)
Net gain	267
At 31 December 2018	86,200
Purchase	214,800
Redemption/disposal	(292,676)
Net gain	1,176
At 31 December 2019	**9,500**

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

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.

	Accrued listing and issue costs	Amounts due to shareholders	Lease liabilities	Borrowing	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018	—	—	—	300,674	300,674
Interest expenses	—	—	9	14,455	14,464
Deferred issue costs	1,508	—	—	—	1,508
Financing cash flows	(1,508)	—	(68)	(14,882)	(16,458)
Recognition of lease liabilities	—	—	2,411	—	2,411
At 31 December 2018	—	—	2,352	300,247	302,599
Interest expenses	—	—	94	12,453	12,547
Deferred issue costs	11,720	—	—	—	11,720
Financing cash flows	(11,720)	(173,887)	(824)	(75,209)	(261,640)
Reorganisation	—	173,887	—	—	173,887
At 31 December 2019	**—**	**—**	**1,622**	**237,491**	**239,113**

40. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place and the date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to owners f the Company at 31 December 2019	2018	Date of report	Principal activities
Directly held:						
Guan Dao Investments Limited	The BVI 3 January 2019	US$1	**100%**	N/A	100%	Investment holding
Indirectly held:						
Jinan Mech	PRC 21 May 2013	RMB217,943,000	**100%**	51.46% (note)	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes
Jinan Ma Steel	PRC 13 October 2001	RMB60,000,000	**100%**	51.46% (note)	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes
Tube Industry Investments Limited	Hong Kong 23 January 2019	HK$10,000	**100%**	N/A	100%	Investment holding
Viet Nam Piping Industries Company Limited	Vietnam 7 January 2019	US$2,000,000	**100%**	N/A	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes

Note: Pursuant to the Reorganisation as more fully explained in the paragraph under section headed "History, Reorganisation and Corporate Structure" in the prospectus dated 29 November 2019, Tube Industry Investments Limited acquired 100% interest in Jinan Mech from Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP, respectively, in 2019. Upon the Reorganisation, Jinan Mech and Jinan Ma Steel became the indirect wholly-owned subsidiaries of the Company.

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

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000
Non-current asset	
Investment in a subsidiary	11,217
Current assets	
Amount due from a subsidiary	51,061
Time deposits	134,370
Bank balances and cash	8,974
	194,405
Current liabilities	
Accrued charges	366
Amount due to a subsidiary	23,955
	24,321
Net current assets	170,084
Net assets	181,301
Capital and reserves	
Share capital	304
Reserves	180,997
Total equity	181,301

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY *– continued*

Movement in the Company's reserves

	Share premium RMB'000	Capital reserve RMB'000	Accumulated loss RMB'000	Total RMB'000
At 1 February 2019 (date of incorporation)	—	—	(4,523)	(4,523)
Loss and total comprehensive expense for the period	—	—	(18,481)	(18,481)
Issue of shares on 18 April 2019 (note 32)	11,217	—	—	11,217
Waiver of listing expenses by a subsidiary	—	4,523	—	4,523
Issue of shares upon Capitalisation Issue (note 32)	(235)	—	—	(235)
Issue of shares by ways of global offering (note 32)	201,724	—	—	201,724
Transaction costs attributable to issue of new shares	(13,228)	—	—	(13,228)
At 31 December 2019	199,478	4,523	(23,004)	180,997

42. EVENT AFTER THE REPORTING PERIOD

As of the date of the consolidated financial statements being authorised to issue, business operations of the Group in China have been impacted by an outbreak of the novel coronavirus ("COVID-19") since the latter half of January 2020, which has endangered the health of many people residing in China. As a result, certain short-term measures have been undertaken by the PRC Government and various provincial or municipal governments including but not limited to implementation of travel restrictions, extension of national holidays and suspension of construction projects, which was significantly disrupted travel and local economy. In addition, our production facilities were required for a temporary closure by the PRC Government in the early of February 2020, despite the financial impact was not significant. In long run, COVID-19 may bring a negative impact to the global or China economy which may have an adverse effect on our business.

In the opinion of the Directors, the impact of the COVID-19 to the Group is uncertain up to the date of this report. Management will remain alert to the development of the epidemic and take appropriate measures as appropriate.

SUMMARY FINANCIAL INFORMATION

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

RESULT

	Year ended 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,125,281**	1,214,839	938,169	452,283
Profit before taxation	**104,123**	119,415	91,227	29,137
Taxation charge	**(14,450)**	(17,944)	(13,650)	(4,952)
Profit for the year	**89,673**	101,471	77,577	24,185

ASSETS AND LIABILITIES

	As at 31 December			
	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,011,197**	808,049	726,537	574,089
Total liabilities	**(353,855)**	(429,517)	(446,481)	(371,610)
Net assets	**657,342**	378,532	280,056	202,479