



達力普控股有限公司
DALIPAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1921



2020

ANNUAL REPORT

CONTENTS

2	Corporate Information	65	Consolidated Statement of Profit or Loss and Other Comprehensive Income
4	Chairman’s Statement	66	Consolidated Statement of Financial Position
5	Directors and Senior Management Profiles	68	Consolidated Statement of Changes in Equity
8	Management Discussion and Analysis	69	Consolidated Cash Flow Statement
14	Report of the Board of Directors	71	Notes to the Consolidated Financial Statements
26	Corporate Governance Report	128	Five-Year Financial Summary
38	Environmental, Social & Governance Report		
59	Independent Auditor’s Report		



CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Meng Fanyong (*Chairman*)
Mr. Zhang Hongyao (*Vice-chairman, re-designated from non-executive Director on 1 January 2020*)
Ms. Xu Wenhong
Mr. Meng Yuxiang
Ms. Gan Shuya
Mr. Yin Zhixiang

Independent Non-executive Directors

Mr. Guo Kaiqi
Mr. Wong Jovi Chi Wing
Mr. Cheng Haitao

Audit Committee

Mr. Wong Jovi Chi Wing (*Chairman*)
Mr. Guo Kaiqi
Mr. Cheng Haitao

Remuneration Committee

Mr. Guo Kaiqi (*Chairman*)
Mr. Meng Yuxiang
Mr. Cheng Haitao

Nomination Committee

Mr. Meng Fanyong (*Chairman*)
Mr. Guo Kaiqi
Mr. Cheng Haitao

Corporate Governance Committee

Ms. Xu Wenhong (*Chairlady*)
Mr. Guo Kaiqi
Mr. Wong Jovi Chi Wing

Risk Management Committee

Ms. Xu Wenhong (*Chairlady*)
Mr. Guo Kaiqi
Mr. Cheng Haitao

Joint Company Secretaries

Ms. Wong Gianne (*FCPA (Australia), CB*)
Mr. Chow Calvin Cheuk Yin (*Solicitor of HKSAR*)

Authorised Representatives

Mr. Meng Fanyong
Ms. Wong Gianne

CORPORATE INFORMATION

Compliance Advisor

CMBC International Capital Limited
45/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

Auditor

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with
the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Legal Advisers as to Hong Kong Laws

Chiu & Partners
40th Floor
Jardine House
1 Connaught Place
Hong Kong

Registered Office

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in the People's Republic of China (the "PRC")

No.1 Zhuangbei District
Nanshugang Road
Bohai New District
Cangzhou City
Hebei Province
PRC

Principal Place of Business in Hong Kong

Unit 02, 10th Floor
Beautiful Group Tower
77 Connaught Road Central
Hong Kong

Cayman Islands Principal Share Registrar and Transfer Office

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

Company's Website

www.dalipal.com

Stock Code

1921

Principal Bankers

Hong Kong

Bank of China (Hong Kong) Limited

The PRC

China Construction Bank Corporation Cangxian Branch
Bank of China Limited Cangzhou City Dongfeng Road Branch

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Dalipal Holdings Limited (the "Company"), I am pleased to present you the annual report of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2020 (the "Year").

First of all, let us review our performance over the Year. The COVID-19 pandemic ("Pandemic"), which has continued up till now since its outbreak in early 2020, has had an unprecedented and significant impact on the global economy, raising uncertainty to a new height. Facing the impact of the Pandemic, the Group had a temporary production halt during the first half of the Year. Afterwards, due to the severe decline in oil and gas demand, customers' delay in resumption of work, slow down in their investments and other factors, the company's product demand and prices decreased, the revenue of OCTG products decreased, and the production capacity utilization in the second half year was relatively insufficient as a result. At the same time, the Pandemic had disrupted the availability of raw materials, causing the continuous increase in unit price of scrap metals. Therefore, 2020 was a very difficult year for the development of the Group. Having put in strong efforts to reduce the impact of the Pandemic, the Group still could not avoid changing from profit to loss-making under such turbulent and unstable market environment. The Group recorded a loss of approximately RMB117.9 million for the Year.

The impact of the Pandemic has severely affected global business society, has changed people's living habits and behaviors, and has accelerated the demand for the Internet and the development of digitalization. Fortunately, the Group had completed its phase one expansion of production facilities (the "Phase One Expansion") in August 2019. The new production facility is equipped with intelligent process equipments. At the same time, in order to cope with the temporary downturn in the OCTG market, the Group actively expanded the market of other oil pipes, and the completion of the the Phase One Expansion has also effectively increased the production capacity of other oil pipes. Therefore, the sales and revenue of other oil pipes had increased during the Year. Our intelligent factory and ecosystem have also greatly enhanced our efficiency of operation and communication, have provided an open platform for our customers and better operational and predictive capabilities for the future.

Under the new market environment, we expect our business partners may change, so another main focus is on customer relationship management. We will continue to actively explore overseas markets in order to respond to the new economic environment and market demand. As always, we will continue to actively develop and provide more new products and services suitable for the better support of different customers' business development and to increase sales and synergies.

In such a difficult time, although we cannot change the external factors, as a professional oil pipe company with solid foundation, good reputation and strong competitiveness, in the coming year we will maintain high degree of critical thinking and proactive actions to cope with the impact of the Pandemic, and to overcome all the challenges that we may encounter during our development, so as to bring along ample development and enhancement for the Group. The Pandemic may continue to bring along many potential risks and uncertainties. In order to provide a solid foundation and assurance for the future development of the Group, prudent financial management is a must. The Group will continue to focus on cash flow and profit management. For the year ended 31 December 2020, the Board has resolved not to recommend the payment of a final dividend.

Finally, on behalf of the Board, I promise that the Group will optimize and integrate the management system, continue to enhance informatization and intelligentization of the company's product manufacturing and our overall competitiveness, in order to create the best return for shareholders and long-term sustainable and stable growth, and at the same time I would like to extend my sincerest gratitude to all shareholders and investors for their continuous support to the Company and to all staff for their diligent work over the Year.

Meng Fanyong
Chairman of the Board and Executive Director

Hong Kong, 26 March 2021

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Executive Directors

Mr. Meng Fanyong (孟凡勇), aged 59

Executive Director and Chairman of the Board

Mr. Meng is an executive Director and Chairman of the Board responsible for the overall strategic development, and leading the business development of the Group. He was appointed as Director on 28 August 2018 and re-designated as executive Director on 27 February 2019. Mr. Meng has over 38 years of experience in oilfield equipment business. He also has over 21 years of experience in operation and management business of OCTG manufacturing. He joined the Group on 18 September 1998. Mr. Meng has been a director and chairman of Dalipal Pipe Company* (達力普石油專用管有限公司) (“Dalipal Pipe”) since September 1998. Prior to joining the Group, he acquired knowledge and experiences in operation of oilfield and oil pipe manufacturing industry by holding various positions in North China Petroleum Administration Bureau Second Drilling Engineering Company* (華北石油管理局第二鑽井工程公司) (“North China Second Drilling”), which principally engages in maintenance of oilfield equipment and oilfield service, including technician, dispatcher of machine maintenance factory, workshop director, manager of machine maintenance factory, and deputy factory director of operational and services department from September 1981 to July 1999. Mr. Meng is also a director of certain subsidiaries of the Group. Mr. Meng is the father of Mr. Meng Yuxiang, an executive Director and the deputy chief executive officer of the Group. Mr. Meng graduated from Communist Party of China Hebei Provincial Party School Party and Government Cadres College* (中共河北省委黨校黨政幹部函授學院) in the PRC in July 1998. Mr. Meng holds approximately 80.6% of the issued share capital of Rosy Astral Limited, which has an interest in such number of shares of the Company under Divisions 2 and 3 of Part XV of Securities and Futures Ordinance as disclosed in the section headed “Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares” in this report.

Mr. Zhang Hongyao (張紅耀), aged 51

Executive Director and Vice-Chairman of the Board (Re-designated from non-executive director on 1 January 2020)

Mr. Zhang was appointed as Director on 27 February 2019, re-designated as a non-executive Director and vice-chairman of the Board on 19 June 2019, and re-designated as an executive Director from non-executive Director on 1 January 2020. He is responsible for sales, marketing and investment management of the Group. Mr. Zhang has more than 15 years of experience in oil pipe manufacturing industry. Prior to joining the Group, he has been the deputy general manager of Baosteel America Inc.* (寶鋼美洲有限公司) since July 2015; the deputy general manager of the steel pipe department of Baoshan Iron & Steel Co., Ltd. (寶山鋼鐵股份有限公司) from August 2007 to July 2015; the general manager and director of Yantai Lubao Steel Pipe Company Limited (煙臺魯寶鋼管有限責任公司) from August 2004 to June 2005 and from June 2005 to August 2007 respectively; and the deputy general manager of Baoshan Iron & Steel Co., Ltd. Steel Pipe Branch* (寶山鋼鐵股份有限公司鋼管分公司) from August 2004 to June 2005. Mr. Zhang obtained a bachelor’s degree in trade economics from Shanghai University of Finance and Economics (上海財經大學) in July 1992 and a master’s degree of arts from West Virginia University in December 2001. Mr. Zhang has an interest in such number of underlying shares of the Company under Divisions 2 and 3 of Part XV of Securities and Futures Ordinance as disclosed in the section headed “Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares” in this report.

Ms. Xu Wenhong (徐文紅), aged 52

Executive Director and chief legal officer

Ms. Xu is an executive Director appointed on 27 February 2019 and the chief legal officer responsible for the overall legal compliance of the Group. Ms. Xu has more than 27 years of experience in commercial legal advisory and over 14 years of experience in management of oil pipe manufacturing business. She joined the Group on 1 April 2003. She has been the chief legal consultant and secretary of the board of director of Dalipal Pipe since April 2003 and June 2014, respectively. She was also a director of Dalipal Pipe from August 2007 to April 2010 and since October 2013. Ms. Xu has been the deputy general manager of Dalipal Pipe Company Bohai New District Branch Company* (達力普石油專用管有限公司渤海新區分公司) (“Dalipal Bohai Branch”) from November 2011 to October 2012, the deputy general manager of Dalipal Equipment Manufacturing Co., Ltd.* (達力普特型裝備有限公司) (“Dalipal Equipment Manufacturing”) from July 2009 to November 2011. She has also been the assistant of the general manager from April 2003 to December 2005 and the deputy general manager from December 2005 to October 2016 of Dalipal Pipe. Prior to joining the Group, Ms. Xu was a lawyer in Hebei Jinsheng Law Firm* (河北金勝律師事務所) from June 2001 to March 2003; a legal officer of North China Petroleum Science and Industrial Company* (華北石油科工貿總公司) (currently known as Renqiu City Huabei Oilfield Technology Industrial Trade General Company* (任丘市華北油田科工貿總公司)) from September 1997 to June 2001; and legal officer of North China Second Drilling from March 1993 to March 1998. Ms. Xu is also a director of certain subsidiaries of the Group. Ms. Xu obtained a diploma in legal education in network education institute of Shandong University* (山東大學網絡教育學院) in July 2004 and the qualification of PRC lawyer in June 1996.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Mr. Meng Yuxiang (孟宇翔), aged 34

Executive Director and deputy chief executive officer

Mr. YX Meng is an executive Director appointed on 27 February 2019 and the deputy chief executive officer responsible for the overall human resources and production operational management of the Group. He has over 8 years of experience in management. Mr. YX Meng joined the Group on 21 May 2017. He has been the deputy general manager and a director of Dalipal Pipe since December 2017 and June 2017, respectively. Mr. YX Meng was the assistant of the general manager of Dalipal Pipe from May 2017 to December 2017. Prior to joining the Group, Mr. YX Meng worked in Beijing Dacheng Real Estate Development Company Limited* (北京大成房地產開發有限責任公司) as the deputy head of follow-up working group from January 2014 to January 2015 and head of land resources management group from February 2015 to April 2017. He was also the head of planning and design department and office executive assistant of Beijing BBMG Property Co., Ltd.* (北京金隅置業有限公司) from February 2011 to February 2012 and from March 2012 to January 2014, respectively; and the engineering staff member of BBMG Property Management Co., Ltd. Jiahua Branch* (北京金隅物業管理有限責任公司金隅嘉華分公司) from July 2008 to February 2011. Mr. YX Meng is also a director of certain subsidiaries of the Group. Mr. YX Meng is the son of Mr. Meng Fanyong, an executive Director and chairman of the Board. Mr. YX Meng obtained a bachelor's degree in civil engineering from Beijing Construction Engineering College (北京建築工程學院) (currently known as Beijing University of Civil Engineering and Architecture (北京建築大學) in July 2008.

Ms. Gan Shuya (干述亞), aged 53

Executive Director and chief operating officer

Ms. Gan is an executive Director appointed on 27 February 2019 and the chief operating officer responsible for the overall operational and financial management of the Group. Ms. Gan has more than 34 years of experience in auditing and accounting in oil-related industry. She joined the Group on 23 August 2010. She has been the director and financial director of Dalipal Pipe since October 2016 and December 2017, respectively. Ms. Gan has been the assistant to the general manager of Dalipal Pipe from October 2010 to December 2017; the manager of finance department and assistant of the general manager of Dalipal Equipment Manufacturing from August 2009 to September 2010 and from July 2009 to September 2010, respectively; and department head and manager of finance department of Dalipal Group Co., Ltd.* (達力普集團有限公司) from October 2007 to March 2008 and from April 2008 to June 2009, respectively. Prior to joining the Group, she held various positions in Hebei Yanhua Accounting Firm Company Limited* (河北燕華會計師事務所有限公司), including the auditor, project manager, senior project manager and department manager from December 1998 to September 2007. She was also the auditor of North China Petroleum Audit Office Fourth Audit Office* (華北石油審計處第四審計室) from January 1997 to November 1998; the auditor and the accountant of North China Second Drilling from July 1991 to December 1996 and from May 1985 to August 1988, respectively; and the worker of Cangzhou Machine Maintenance Factory of North China Petroleum Second Drilling Company* (華北石油管理局第二鑽井工程公司滄州機修廠) from September 1984 to April 1985. Ms. Gan is also a director of certain subsidiaries of the Group. Ms. Gan completed a course in accountancy at the Adult Higher Education, School of Continuing Education, Hebei University* (河北大學夜大學) in July 2001. She obtained the qualification of PRC certified public valuer in September 2005 and the qualification of PRC certified public accountant in May 1995. Ms. Gan has an interest in such number of underlying shares of the Company under Divisions 2 and 3 of Part XV of Securities and Futures Ordinance as disclosed in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" in this report.

Mr. Yin Zhixiang (殷志祥), aged 63

Executive Director and chief technical officer

Mr. Yin is an executive Director appointed on 27 February 2019 and the chief technical officer responsible for the overall R&D and technical management of the Group. He has more than 38 years of experience in the operation of oilfield. He joined the Group on 23 August 2010. Mr. Yin has been the chief technical expert and deputy general manager of Dalipal Pipe since June 2017 and October 2016, respectively; the project manager of Dalipal Pipe since January 2018; and the deputy general manager for general affairs from November 2011 to October 2016 and the director of technical centre from December 2012 to October 2015 of Dalipal Pipe. He was also general manager of Dalipal Bohai Branch from November 2011 to May 2016. He was also the deputy manager for general affairs of Dalipal Equipment Manufacturing from July 2009 to November 2011 and the deputy general manager of Dalipal Group from July 2008 to July 2009. Prior to joining the Group, he was the director and deputy general manager of Rongsheng Machinery Manufacture Ltd. of Huabei Oilfield, Hebei (河北華北石油榮盛機械製造有限公司) from May 2002 to July 2008; and the dispatcher, chief of production division, branch factory manager and deputy factory manager, of the second machinery factory of North China Petroleum Management Authority* (華北石油管理局第二機械廠) from August 1981 to May 2002. Mr. Yin gained his experiences in machinery production in a factory located in Jiangsu in the PRC from March 1977 to August 1979. Mr. Yin had been a director of Dalipal Pipe prior to September 2020. Mr. Yin obtained a diploma in economics management from Communist Party of China Central Party College* (中共中央黨校函授學院) in December 1995 and a diploma in statistics from Hebei University in December 1989.

Independent non-executive Directors

Guo Kaiqi (郭開旗), aged 65

Independent non-executive Director

Mr. Guo is an independent non-executive Director appointed on 19 June 2019. Mr. Guo has over 46 years of experience in operation of oilfield. Mr. Guo was the party committee secretary and deputy general manager of China Petroleum Materials Corporation (中國石油物資公司) from November 2007 to July 2015; the party committee secretary, party committee deputy secretary, secretary for committee of discipline inspection and union president of North China Oilfield Branch Company* (華北油田分公司) from July 1999 to November 2007; the deputy director of North China Petroleum Administration Bureau from November 1997 to July 1999; the party committee secretary, party committee deputy secretary, party committee member, chief of corporate management department and committee member of organisation department of North China Petroleum Administration Bureau Underground Operation Company* (華北石油管理局井下作業公司) from July 1985 to November 1997; and the worker and committee member, of Dagang oilfield, and North China oilfield from November 1972 to September 1983. Mr. Guo obtained a master's degree in corporate management in Petroleum University (Beijing)* (石油大學(北京)) in June 2002.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Wong Jovi Chi Wing (王志榮), aged 40

Independent non-executive Director

Mr. Wong is an independent non-executive Director appointed on 19 June 2019. Mr. Wong has over 11 years of experience in finance industry. Mr. Wong is currently an executive director of Wonder Capital Group Limited. He was the director of distribution department of Janus Henderson Investors (Hong Kong) Limited from July 2014 to April 2018; the associate of China Merchants Securities (HK) Co., Ltd. from June 2013 to July 2014; and the executive of corporate finance department of Haitong International Capital Limited from June 2010 to June 2013. He also worked in Auto22.com Ltd from December 2002 to February 2010 as general manager. Mr. Wong obtained a bachelor's degree of science in information system from the University of Auckland in September 2003 and a master's degree in business administration from the Hong Kong University of Science and Technology in November 2010. Mr. Wong was admitted as a member of CPA Australia in February 2018.

Cheng Haitao (成海濤), aged 62

Independent non-executive Director

Mr. Cheng is an independent non-executive Director appointed on 19 June 2019. Mr. Cheng has over 28 years of experience in the steel pipe manufacturing industry. Since March 2019, Mr. Cheng has been the part-time consultant of Mongolia Baogang Steel Union Company Limited* (內蒙古包鋼鋼聯股份有限公司). Mr. Cheng has been the honorary director of the Expert Committee of the Shanghai Steel Pipe Industry Association* (上海鋼管行業協會專家委員會) since May 2018 and he has been certified as the consultant of Steel Pipe Division, China Steel Construction Society* (中國鋼結構協會鋼管分會) in April 2017. Prior to July 2019, he was a committee member of the Fourth Steel Pipe Technician Sub-committee, National Steel Standardisation Committee* (全國鋼標準化委員會第四屆鋼管分技術委員會) since July 2019; and president and editor of Steel Pipe (《鋼管》雜誌), a publication relating to the steel and metal pipe industry published in the PRC, from September 1999 and April 2007, respectively, to June 2020. Mr. Cheng was also the deputy manager and deputy general manager of Pangang Group Chengdu Vanadium Steel Company Limited* (攀鋼集團成都鋼鈞有限公司) from August 2008 to May 2014 and from May 2014 to May 2017 respectively; deputy manager of Pangang Group Chengdu Steel and Metal Company* (攀鋼集團成都鋼鐵有限責任公司) from June 2002 to August 2008; the deputy general manager of Pangang Group Chengdu Seamless Steel Pipe Company Limited* (攀鋼集團成都無縫鋼管有限責任公司) ("Pangang Chengdu") from December 2000 to May 2002; the chief engineer, deputy general manager and chief dispatcher from June 1995 to December 2000 of Chengdu Seamless Steel Pipe Factory* (成都無縫鋼管廠); and the deputy factory director and the factory director of Chengdu Seamless Rolling Factory* (成都無縫周軋分廠) from June 1993 to May 1995; and the deputy factory director of Chengdu Seamless Tube Factory II* (成都無縫軋管二分廠) from May 1991 to May 1993. Mr. Cheng gained his experiences in production of metal in a factory located in Sichuan in the PRC from July 1987 to May 1989 and technical experiences in iron and steel metallurgical processing and thermal processing in a research institute in the PRC from May 1982 to August 1984. Mr. Cheng obtained a master's degree in metal pressure processing in Beijing Steel and Metal College* (北京鋼鐵學院) in June 1987.

SENIOR MANAGEMENT**Mr. Bai Gongli (白功利), aged 56**

Chief executive officer

Mr. Bai is the chief executive officer of the Group responsible for the overall administrative and operational management of the Group. He joined the Group on 11 June 2017 as the general manager of Dalipal Pipe and became the director of Dalipal Pipe in December 2017. Prior to joining the Group, Mr. Bai was the executive director and general manager and party committee deputy secretary of China Petroleum Group Bohai Petroleum Equipment Manufacturing Company Limited* (中國石油集團渤海石油裝備製造有限公司) from March 2016 to May 2017; and the technician, engineer, deputy director, director, deputy general manager, party committee deputy secretary, general manager and executive director of Baoji Petroleum Pipe Company Limited* (寶雞石油鋼管有限責任公司) from July 1986 to March 2016. Mr. Bai is also a director of certain subsidiaries of the Group. Mr. Bai obtained a diploma in mechanical engineering from Shanxi Institute of Engineering* (陝西工學院) in July 1986. He also obtained the qualification of senior economist at professor level issued by China Petroleum and Natural Gas Group Limited Senior Technical Services Accrediting Committee* (中國石油天然氣集團公司高級技術服務評審委員會) in December 2013. Mr. Bai has an interest in such number of underlying shares of the Company under Divisions 2 and 3 of Part XV of Securities and Futures Ordinance as disclosed in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" in this report.

Ms. Wong Gianne (王千華), aged 41

Finance and investor relations director and joint company secretary

Ms. Wong is the finance and investor relations director and joint company secretary of the Group. She joined the Group on 1 January 2019. Ms. Wong has 20 years of experience in corporate finance, financing and investment. Prior to joining the Group, Ms. Wong worked as consultant and joint company secretary for Kidsland International Holdings Limited (stock code: 2122) from February 2013 to February 2019 responsible for pre-IPO and IPO projects and investor relations. She was the vice-president in debt capital markets of Sumitomo Mitsui Banking Corporation from March 2007 to July 2009, the vice-president of commercial banking in Hongkong and Shanghai Banking Corporation from September 2003 to March 2007, and senior associate in Arthur Andersen & Co. (currently known as PricewaterhouseCoopers) from September 2001 to September 2003. Ms. Wong is the director of Acebright International Limited, a management consultancy and licensed trust and company service provider. She is also the founder and chairman of SENPHA Limited, a registered charity focusing on mental health in Hong Kong, and the director and treasurer of the Hong Kong University of Science and Technology Alumni Association. Ms. Wong was admitted as fellow member of CPA Australia in January 2015 and as certified banker (treasury management) of the Hong Kong Institute of Bankers in November 2007. Ms. Wong obtained a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology in November 2001. She further obtained a master's degree of social sciences in applied psychology from the City University of Hong Kong in July 2015. Ms. Wong has an interest in such number of underlying shares of the Company under Divisions 2 and 3 of Part XV of Securities and Futures Ordinance as disclosed in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" in this report.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

2020 was a challenging year for the Group's business. Due to the impact of the COVID-19 Pandemic ("Pandemic"), the Group's production facilities were suspended temporarily during the first quarter of 2020 and the Group's operation was subsequently disrupted from time to time by customers' delay in resuming work, slow down in their investments, and blockage of supply of raw materials. As a result, the Group's production capacity utilization rate during the Year was relatively lower, causing a decrease of approximately 20.0% in the Group's annual revenue as compared with the same period last year. The continuous increase in the unit price of the Group's major raw material, scrap metal, had further caused the Group's gross profit margin to decrease to 4.6% in 2020 as compared to 18.9% last year. The Group recorded a loss for the Year in the amount of approximately RMB117.9 million, as compared with the profit of RMB337.4 million recorded for the preceding year. Loss for the Year attributable to equity shareholders of the Company amounted to approximately RMB116.4 million, as compared to the profit attributable to equity shareholders of approximately RMB333.7 million recorded in 2019. Basic and diluted loss per share amounted to RMB0.08 for the Year, as compared with the earnings per share of RMB0.27 recorded for last year.

Business Review

	2020		2019		Change	
	Sales RMB million	Proportion of sales %	Sales RMB million	Proportion of sales %	Sales RMB million	Percentage %
OCTG	1,060.1	46.9%	1,641.4	58.1%	-581.3	-35.4%
Other oil pipes	714.9	31.7%	417.5	14.8%	297.4	71.2%
Pipe billets	484.4	21.4%	767.1	27.1%	-282.7	-36.9%
	2,259.4	100.0%	2,826.0	100.0%	-566.6	-20.0%

	2020		2019		Change	
	Sales	Proportion of sales	Sales	Proportion of sales	Sales	Percentage
Domestic sales	2,070.8	91.7%	2,632.1	93.1%	-561.3	-21.3%
Overseas sales	188.6	8.3%	193.9	6.9%	-5.3	-2.7%
	2,259.4	100.0%	2,826.0	100.0%	-566.6	-20.0%

During the Year, the Group recorded a decrease by approximately 35.4% in the revenue generated from the sales of OCTG to approximately RMB1,060.1 million (2019: RMB1,641.4 million), an increase by approximately 71.2% in the revenue generated from the sales of other oil pipes to approximately RMB714.9 million (2019: RMB417.5 million), and a decrease by approximately 36.9% in the revenue generated from the sales of pipe billets to approximately RMB484.4 million (2019: RMB767.1 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in the revenue from the sales of OCTG was mainly due to lower product selling price and a decrease in sales volume affected by the Pandemic. After the completion of the Group's Phase One expansion of production facilities (the "Phase One Expansion") in August 2019, in order to cope with the temporary downturn in the OCTG market during the Year, the Group actively expanded its sales in the other oil pipe markets, causing an increase in the revenue from the sales of other oil pipes during the Year. The decrease in the revenue from pipe billets was mainly due to the decrease in sales volume of pipe billets and certain pipe billets had been utilized internally for the production of other oil pipes, as well as the decrease in product selling price.

During the Year, revenue from overseas sales of the Group decreased by approximately 2.7% to approximately RMB188.6 million (2019: RMB193.9 million), mainly attributable to the decrease in overseas product prices.

Prospects

The Group has been closely monitoring the impact from the Pandemic on the Group's business and has put in place various contingency measures. These contingency measures include but not limited to carrying out reassessment on the demand and selling price of OCTG products in order to make the necessary adjustments to its production activities in light of the changes in demand of refined oil in the market and the fluctuations in the price of crude oil, expanding the supplier base of raw materials, improving the procurement quality of raw material, expanding the scope of the product market, developing and promoting new products, improving product quality to ensure the Group is able to meet types of customers' demands and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on extension of payment terms. The Group will keep the contingency measures under review as the Pandemic situation evolves.

As far as the Group's businesses are concerned, the Pandemic and the volatility in the crude and refined oil markets have caused the decrease in both the sales volume and selling price of the Group's OCTG products, and the Group had temporarily suspended its production activities during the first quarter of 2020. Currently, the gradual easing of the Pandemic situation in the PRC and stabilisation of the global crude and refined oil markets have led to the recovery of the demand and selling price of OCTG products.

The Group expects that there will be no material negative change to the future development of the Group's business, except for the impact of the Pandemic.

Financial Review

Revenue

The Group recorded a revenue of approximately RMB2,259.4 million in total for the Year, representing a decrease by approximately 20.0% as compared to approximately RMB2,826.0 million in 2019. During the Year, revenue from the sales of OCTG and pipe billets decreased, whilst revenue from other oil pipes increased.

Cost of sales

The Group recorded cost of sales of approximately RMB2,155.0 million in total for the Year, representing a decrease by approximately 6.0% as compared to approximately RMB2,291.6 million in 2019, which was mainly due to the decrease in sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

	2020		2019	
	Gross profit RMB million	Gross profit margin %	Gross profit RMB million	Gross profit margin %
OCTG	139.4	13.1%	406.8	24.8%
Other oil pipes	9.1	1.3%	73.6	17.6%
Pipe billets	17.9	3.7%	54.0	7.0%
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the Pandemic	-62.0	N/A	N/A	N/A
	104.4	4.6%	534.4	18.9%

The total gross profit of the Group for the Year was approximately RMB104.4 million, representing a decrease by approximately 80.5% as compared to approximately RMB534.4 million in 2019. The Group's overall gross profit margin for the Year was approximately 4.6%, representing a decrease by 14.3 percentage points as compared to the gross profit margin of 18.9% in 2019.

Other income

The Group's other income for the Year was approximately RMB16.7 million, representing a decrease by approximately RMB117.8 million as compared to approximately RMB134.5 million in 2019, mainly attributable to a net gain of approximately RMB125.5 million recorded in 2019 on compensations from local government for the relocation of the Group's production facilities due to zone development requirements of the area, but no such income during the Year.

Administrative expenses

The administrative expenses of the Group for the Year was approximately RMB116.6 million, representing a decrease by approximately 8.5% as compared to approximately RMB127.5 million in 2019, mainly attributable to the decrease in the listing expenses.

Finance costs

The finance costs of the Group for the Year was approximately RMB97.0 million, representing an increase by approximately 38.4% as compared to approximately RMB70.1 million in 2019, mainly attributable to the Phase One Expansion was completed and put into production, and the project loan interest was not capitalized, all of which were included in the finance costs and part of the loan has been repaid.

Income tax

For the Year, the Group recorded income tax credit of approximately RMB26.2 million, as compared to the income tax expenses of approximately RMB72.3 million incurred in 2019. The Group recorded income tax credit for the Year was mainly because (1) according to the tax law in the PRC, the Group recorded a loss before taxation during the Year, which gave rise to deductible deferred income tax expenses; (2) Dalipal Hong Kong Company Limited and Dalipal Holdings Limited met the Hong Kong tax resident status in 2020 and according to the regulations of the Hong Kong Special Administrative Region on avoiding double taxation on income, the Group's distribution of dividends abroad is taxed at a reduced rate of 5%, and the original tax difference of 10% is reversed.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss/profit for the year and EBITDA

The Group recorded a net loss of approximately RMB117.9 million for the Year as compared with the profit of approximately RMB337.4 million recorded for the preceding year.

The Group's EBITDA for the Year decreased by approximately 87.1% to approximately RMB72.8 million from approximately RMB563.5 million for the preceding year.

Inventories

The Group's inventory turnover days increased slightly from 69 days for the year ended 31 December 2019 to 79 days for the Year, due to slower inventory turnover as affected by the Pandemic.

Loss/profit for the year attributable to equity shareholders

The loss attributable to equity shareholders of the Company for the Year was approximately RMB116.4 million, as compared to the profit attributable to equity shareholders of the Company of approximately RMB333.7 million for the preceding year.

Capital Expenditure

During the Year, the Group invested approximately RMB72.1 million (2019: approximately RMB520.3 million) in property, plant and equipment, representing a decrease of RMB448.2 million as compared to the preceding year, mainly attributable to the construction of Phase One Expansion was finished in the preceding year.

Liquidity, financial resources and capital structure

The Group has mainly financed its working capital and other cash requirements by net cash generated from operating activities and resorted to external financing including both long-term and short-term bank borrowings in case the projected operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2020, cash at bank and on hand amounted to approximately RMB416.2 million in aggregate (2019: RMB810.6 million). Interest-bearing borrowings of the Group amounted to approximately RMB1,922.3 million, of which RMB443.2 million were long-term borrowings and approximately RMB1,479.1 million were short-term borrowings.

Debt to equity ratio, which is calculated by the net liabilities (interest-bearing borrowings net of cash at bank and on hand) divided by the total equity as at the respective year end and multiplied by 100%, was approximately 119.3%, representing an increase by 28.1 percentage points as compared to approximately 91.2% in 2019, due to the decrease in total equity attributable to equity shareholders given the operating loss and dividends paid to the shareholders.

Current ratio, which is calculated based on the current assets divided by the current liabilities, further decreased from 1.2 as at 31 December 2019 to 0.9 as at 31 December 2020.

Employees and remuneration policy

As at 31 December 2020, the Group had 1,453 employees (2019: 1,888 employees). During the year, the total staff costs amounted to approximately RMB165.6 million (2019: RMB167.9 million).

The Group believes its success depends on its employees' provision of consistent, high quality and reliable services. In order to attract, retain and enrich the knowledge, skill level and qualifications of its employees, the Group places a strong emphasis on training for employees. In addition, the Group offers a competitive remuneration package, including basic salary and performance-based monthly and annual bonuses, and reviews the remuneration package annually according to industry benchmark, financial results, as well as the performance of employees.

MANAGEMENT DISCUSSION AND ANALYSIS

Pledge of assets

As at 31 December 2020, the Group's property, plant and equipment with carrying amount of approximately RMB1,179.0 million and other chattels with carrying amount of approximately RMB440.9 million were pledged as collateral for the Group's bank borrowings.

Foreign exchange risk

A majority of the Group's businesses are operated in the PRC and are denominated in RMB. It is expected that the Group will not be subject to any materially adverse effects arising from exchange rate fluctuation. Nevertheless, the Group will closely monitor the financial market and would consider appropriate measures as and when necessary.

Significant investments held and material acquisitions and disposals

The Group did not have any significant investments held, nor were there any material acquisitions or disposals during the Year.

Contingent liabilities

As of 31 December 2020, the Group did not have any contingent liabilities.

Use of Proceeds from Initial Public Offering

The Company's ordinary shares of HK\$0.1 each (the "Shares") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 November 2019 ("Listing Date") by way of initial public offering ("IPO"). From the IPO, the Company raised net proceeds (after deduction of underwriting commission and related costs and expenses) of approximately HK\$426.3 million (approximately RMB383.7 million). As stated in the prospectus of the Company dated 28 October 2019 (the "Prospectus"), the Company intended to use the proceeds (i) to fund the Phase Two Expansion; (ii) to strengthen the Group's product research and development and innovation capabilities; (iii) to strengthen the Group's relationships with key customers, expand the Group's customer base and further expand the Group's sales to overseas markets; and (iv) for general replenishment of working capital and other general corporate purpose.

On 10 June 2020, the Board resolved to allocate part of the unutilised net proceeds of the Phase Two Expansion for the repayment of certain existing interest-bearing borrowings of the Group (the "Reallocation"). For details of the Reallocation, please refer to the Company's announcement dated 10 June 2020. During the Year, the net proceeds had been applied for as follows:

	Original planned use of net proceeds (RMB million)	Amount of Reallocation (RMB million)	Amount utilised during the Year (RMB million)	Unutilised net proceeds as at 31 December 2020 (RMB million)
To fund the Phase Two Expansion	339.2	(200.0)	19.1	101.2
To strengthen the Group's product research and development and innovation capabilities	9.2	–	0.2	5.5
To strengthen the Group's relationships with key customers, expand the Group's customer base and further expand the Group's sales to overseas markets	7.7	–	0.8	2.9
For general replenishment of working capital and other general corporate purpose	27.6	–	7.6	20.0
For loan repayment	–	200.0	200.0	–
Total	383.7	–	227.7	129.6

MANAGEMENT DISCUSSION AND ANALYSIS

The unutilised net proceeds are kept in banks and approved financial institutions in Hong Kong and the PRC. As at the date of this report, the Company does not anticipate any further change to the above planned use of proceeds after the Reallocation. The remaining unutilised net proceeds as at 31 December 2020 are currently expected to be fully utilised on or before 30 June 2022. There is delay to the timeline for the use of proceeds as disclosed in the Company's 2019 annual report (originally expected to be fully utilised on or before 31 March 2021), as the commencement of the Phase Two Expansion plan has been postponed due to the impact of the Pandemic.

REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020 (the “Year”).

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The Company and its subsidiaries are engaged in the development, manufacturing and sale of OCTG, other oil pipes and pipe billets in the PRC. The activities of the principal subsidiaries are set out in note 12 to the consolidated financial statements.

The analysis of the Group’s performance for the year by business and geographical segments is set out in note 4 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group’s business for the year ended 31 December 2020, a discussion on the Group’s future business development and principal risks and uncertainties that the Group is facing are provided in the sections headed “Chairman’s Statement” on pages 4 and “Management Discussion and Analysis” on pages 8 to 13.

The financial risk management objectives and policies of the Group are set out in note 24 to the consolidated financial statements.

An analysis of the Group’s performance for the year ended 31 December 2020 by key financial performance indicators is set out on pages 8 to 13.

The Company promotes the culture of adhering to the highest ethical standards of business conduct and commits to comply with all prevailing laws and regulations in all its operating regions. During the year, the Company was not aware of any material non-compliance or breach of the applicable legislation or regulations that have a significant impact on the Group.

EVENT AFTER REPORTING PERIOD

There was no significant event after the end of the year up to the date of this report.

REPORT OF THE BOARD OF DIRECTORS

RESULTS AND DIVIDENDS

The Group's consolidated financial statements for the Year have been reviewed and approved by the audit committee of the Board (the "Audit Committee"), and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board to approve the Group's consolidated financial statements for the Year. The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 65.

The Board has resolved not to recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HK\$0.1 per share).

ANNUAL GENERAL MEETING

The 2021 annual general meeting of the Company (the "AGM") is currently scheduled to be held on Friday, 28 May 2021. A notice convening the 2021 AGM and all other relevant documents will be published and dispatched to the shareholders of the Company in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE 2021 AGM AND FINAL DIVIDEND

For determining the entitlement to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the 2021 AGM, all transfers of Shares, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 24 May 2021.

ENVIRONMENTAL PROTECTION AND COMPLIANCE WITH LAWS AND REGULATIONS

The Group is committed to supporting the environmental sustainability. The Group is subject to various environmental laws and regulations set by the PRC national, provincial and municipal governments. Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations. During the year, the Group has complied with relevant laws and regulations that have significant impact on the operations of the Group. Further, any changes in applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Group is always committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. A report on the environmental, social and governance aspects has been prepared with reference to the Environmental, Social and Governance Reporting Guide in Appendix 27 to the Listing Rules and the Consultation Conclusions on Reviews of the Environmental, Social and Governance Reporting Guide and Related Listing rules published on 18 December 2019, and is set out in the section headed "Environmental, Social & Governance Report" on pages 38 to 58 of this annual report.

REPORT OF THE BOARD OF DIRECTORS

RELATIONSHIP WITH STAKEHOLDERS

The Group recognises that employees, customers, suppliers and business partners are keys to its sustainable development. The Group is committed to establishing a close and caring relationship with its employees, providing quality services to its customers and enhancing cooperation with its suppliers and business partners.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 128 of this report.

SHARE CAPITAL

The changes in share capital of the Company during the Year are set out in note 23(b) to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Year.

RESERVES

Details of the changes in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and note 23(a) to the consolidated financial statements respectively.

As at 31 December 2020, the Company's reserves available for distribution amounted to approximately RMB159.1 million, included in the Company's share premium account.

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum and articles of association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the Company's article of association, dividends shall be distributed out of the retained profits or other reserve, representing the share premium account of the Company.

REPORT OF THE BOARD OF DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 39.4% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier accounted for approximately 11.6% of the Group's total purchases. The percentages of sales for the year attributable to the Group's five largest customers combined accounted for approximately 56.2% of the Group's total sales and the percentage of the sales attributable to the Group's largest customer accounted for approximately 21.5% of the Group's total sales.

None of the Director, any of their close associate or any shareholder of the Company (to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in any of the Group's five largest suppliers or customers.

DIRECTORS

The Directors during the year and up to the date of this annual report were:

Executive Directors

Mr. Meng Fanyong (*Chairman*)

Mr. Zhang Hongyao (*Vice-chairman, re-designated from non-executive Director on 1 January 2020*)

Ms. Xu Wenhong

Mr. Meng Yuxiang

Ms. Gan Shuya

Mr. Yin Zhixiang

Independent Non-executive Directors

Mr. Guo Kaiqi

Mr. Wong Jovi Chi Wing

Mr. Cheng Haitao

In accordance with the articles of association of the Company, one-third of our Directors will retire in the 2021 AGM, and being eligible, have offered themselves to be re-elected and re-appointed at the 2021 AGM.

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 19 June 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

Each of the Company's non-executive Directors and independent non-executive Directors has signed a letter of appointment with the Company for a term of three years from 19 June 2019, which may be terminated by not less than three months' notice in writing served by either party on the other.

No Director proposed to be re-elected at the 2021 AGM has an unexpired service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Biographical information of the Directors and the senior management of the Group are set out on pages 5 to 7 of this annual report.

REPORT OF THE BOARD OF DIRECTORS

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors have been independent from their respective date of appointment to 31 December 2020 and remain independent as of the date of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2020, the interests and short positions of the Directors and their associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) which will be required to be 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 will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

Long positions

Name	Name of Group member/ associated corporation	Nature of interest	Number of ordinary Shares and underlying Shares held under equity derivatives capital (Note 1)	Approximate percentage of shareholding (Note 4)
Directors				
Mr. Meng Fanyong	The Company	Interest of controlled corporation (Note 2)	706,353,600(L)	47.1%
Mr. Zhang Hongyao	The Company	Beneficial owner	15,000,000(L) (Note 3)	1.00%
Ms. Gan Shuya	The Company	Beneficial owner	10,800,000(L) (Note 3)	0.72%
Mr. Guo Kaiqi	The Company	Beneficial owner	598,000(L)	0.04%
Chief Executive				
Mr. Bai Gongli	The Company	Beneficial owner	13,500,000(L) (Note 3)	0.90%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares and underlying shares of the Company.
- (2) Rosy Astral Limited ("Rosy Astral") is owned as to approximately 80.6% by Mr. Meng Fanyong. By virtue of the SFO, Mr. Meng Fanyong is deemed to be interested in the Shares held by Rosy Astral.
- (3) These represent the maximum number of Shares which may be allotted and issued to such Directors upon the exercise of the pre-IPO share options granted to each of them under the pre-IPO share option scheme approved and adopted by the then shareholders on 19 June 2019 (the "Pre-IPO Share Option Scheme") as at 31 December 2020. Details of the Pre-IPO Share Option Scheme are set out under the section headed "Share Option Schemes" below.
- (4) The percentage represents the number of shares or registered capital involved divided by the number of the Company's issued shares as at 31 December 2020, being 1,500,000,000.

REPORT OF THE BOARD OF DIRECTORS

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executive of the Company had or was deemed to have any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code set out in the Listing Rules.

SHARE OPTION SCHEMES

Post-IPO Share Option Scheme

On 19 June 2019, a post-IPO share option scheme (the "Post-IPO Share Option Scheme") was adopted by a resolution in writing by the then shareholders of the Company to incentivise or reward eligible participants (i.e. (i) any full-time or part-time employee (including any executive director) of the Group or any entity in which any member of the Group holds any equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Group or Invested Entity; (iii) any supplier or customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; (vi) any adviser or consultant to any area of business or business development of the Group or any Invested Entity; (vii) such other persons who in the sole opinion of the Board may contribute or have contributed to the development and growth of the Group; and (viii) any company wholly owned by one or more persons belonging to any of the above classes of participants (collectively, the "Post-IPO Eligible Participants") for their contribution to the Group, for the purpose of motivating them to optimise their performance efficiency for the benefit of the Group, and attracting and retaining these Post-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

For any options granted to Directors, chief executives or substantial shareholders of the Company, or any of their respective associate, options to be granted to any of these persons shall be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associates is the proposed grantee of options). Where any option granted to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued or to be issued upon exercise of all options already granted and to be granted to such person in the 12-month period up to and including the date of such grant, (i) representing in aggregate over 0.1% of the Shares in issue; and (ii) having an aggregate value, based on the closing price of the Shares at the date of each offer for the grant, in excess of HK\$5 million, such grant of options shall be subject to prior approval by resolutions of the shareholders (voting by way of poll) at which all core connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time.

The number of Shares issued and to be issued in respect of options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the total Shares of the Company in issue, without prior approval from the shareholders of the Company and with such participants and his close associates abstaining from voting.

The amount payable on acceptance of the grant of an option is HK\$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the Post-IPO Share Option Scheme, the exercise price is determined by the Directors, and will not be less than the higher of (i) the closing price of the Shares on the date of grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

The Post-IPO Share Option Scheme does not contain any minimum period for which an option must be held before it can be exercised. However, at the time of granting of the options, the Board may specify any such minimum period.

The options granted pursuant to the Post-IPO Share Option Scheme will expire no later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise terminated by the shareholders in general meeting in accordance with the terms of the Post-IPO Share Option Scheme, the Post-IPO Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption which was 19 June 2019, after which no further options will be granted or offered but the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior to the expiry of the 10-year period or otherwise as may be require. As at the date of this report, the Post-IPO Share Option Scheme had a remaining life of approximately 8 years.

REPORT OF THE BOARD OF DIRECTORS

The total number of the Shares which may be allotted and issued upon the exercise of all options to be granted under the Post-IPO Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date, i.e. 150,000,000 Shares (representing 10% of the total issued shares of the Company as at the date of this report), unless shareholders' approval has been obtained. The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the Shares in issue from time to time.

No share option was granted, exercised, cancelled or lapsed under the Post-IPO Share Option Scheme during the Year. No share option was outstanding under the Post-IPO Share Option Scheme as at 31 December 2020 and up to the date of this report.

Pre-IPO Share Option Scheme

On 19 June 2019, the Pre-IPO Share Option Scheme was adopted by a resolution in writing passed by the then shareholders of the Company to incentivise or reward eligible participants (i.e. any full-time or part-time employee (including any executive director) of the Group or any Invested Entity; and any non-executive directors or proposed non-executive directors (including independent non-executive directors) of the Company, any subsidiary of the Company or any Invested Entity) (the "Pre-IPO Eligible Participants") for their contribution to the Group for the purpose of motivating the Pre-IPO Eligible Participants to optimise their performance efficiency for the benefit of the Group, and attract and retain or otherwise maintain an on-going relationship with the Pre-IPO Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

As at the date of this report, the Pre-IPO Share Option Scheme had a remaining life of approximately 8 years.

There is no maximum entitlement limit for the participants as specified in the Pre-IPO Share Option Scheme.

The amount payable on acceptance of the grant of an option is HK\$1.00, which will be payable on or before a prescribed acceptance date, and any offer of option made by the Directors under the Pre-IPO Share Option Scheme shall be open for acceptance for a period of up to the earlier of 21 days from the relevant offer date or the latest practicable date as specified in the Prospectus. For the avoidance of doubt, no further option may be granted under the Pre-IPO Share Option Scheme.

There is no minimum period for which the share options granted under the Pre-IPO Share Option Scheme must be held before it can be exercised once the relevant share options have been vested on the grantees, unless otherwise determined by the Directors. Please refer to the below for further information about the applicable vesting period of the options granted under the Pre-IPO Share Option Scheme.

In relation to any options granted under the Pre-IPO Share Option Scheme, the exercise price is determined at the discretion of the Directors, provided that it shall be not less than the nominal value of a Share. Please refer below for further information about the exercise price of the options granted under the Pre-IPO Share Option Scheme.

Upon terminated by the shareholders in general meeting in accordance with the terms of the Pre-IPO Share Option Scheme, no further options will be offered but the terms of the Pre-IPO Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting options granted prior thereto or otherwise as may be required in accordance with the terms of the Pre-IPO Share Option Scheme.

REPORT OF THE BOARD OF DIRECTORS

Movements of the share options granted under the Pre-IPO Share Option Scheme during the Year were as follows:

	Date of grant	Exercise period (Note 1)	Outstanding as at 1 January 2020	Exercise Price per Share HKD (Note 2)	During the Year			Outstanding as at 31 December 2020
					Exercised	Cancelled	Lapsed	
Directors								
Mr. Zhang Hongyao	8 October 2019	From 9 November 2021 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 9 November 2022 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 9 November 2023 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 11 November 2024 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 10 November 2025 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000
			15,000,000	-	-	-	-	15,000,000
Ms. Gan Shuya	8 October 2019	From 9 November 2020 to 8 November 2025	2,400,000	0.477	-	-	1,200,000 (Note 3)	1,200,000
	8 October 2019	From 9 November 2021 to 8 November 2025	2,400,000	0.477	-	-	-	2,400,000
	8 October 2019	From 9 November 2022 to 8 November 2025	2,400,000	0.477	-	-	-	2,400,000
	8 October 2019	From 9 November 2023 to 8 November 2025	2,400,000	0.477	-	-	-	2,400,000
	8 October 2019	From 11 November 2024 to 8 November 2025	2,400,000	0.477	-	-	-	2,400,000
			12,000,000	-	-	-	1,200,000	10,800,000

REPORT OF THE BOARD OF DIRECTORS

	Date of grant	Exercise period (Note 1)	Outstanding as at 1 January 2020	Exercise Price per Share HKD (Note 2)	During the Year			Outstanding as at 31 December 2020
					Exercised	Cancelled	Lapsed	
Chief Executive								
Mr. Bai Gongli	8 October 2019	From 9 November 2020 to 8 November 2025	3,000,000	0.477	-	-	1,500,000 (Note 3)	1,500,000
	8 October 2019	From 9 November 2021 to 8 November 2025	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 9 November 2022 to 8 November 2025	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 9 November 2023 to 8 November 2025	3,000,000	0.477	-	-	-	3,000,000
	8 October 2019	From 11 November 2024 to 8 November 2025	3,000,000	0.477	-	-	-	3,000,000
			15,000,000	-	-	-	1,500,000	13,500,000
Employee								
Ms. Wong Gianne	8 October 2019	From 9 November 2020 to 8 November 2025	600,000	0.477	-	-	-	600,000
	8 October 2019	From 9 November 2021 to 8 November 2025	600,000	0.477	-	-	-	600,000
	8 October 2019	From 9 November 2022 to 8 November 2025	600,000	0.477	-	-	-	600,000
	8 October 2019	From 9 November 2023 to 8 November 2025	600,000	0.477	-	-	-	600,000
	8 October 2019	From 11 November 2024 to 8 November 2025	600,000	0.477	-	-	-	600,000
			3,000,000	-	-	-	-	3,000,000
Total			45,000,000	-	-	-	2,700,000	42,300,000

Notes:

- (1) The vesting period of the share options ("Share Options") under the Pre-IPO Share Option Scheme is from the date of grant until the commencement of the exercise period. The vesting of the Share Options is subject to the fulfilment of certain vesting conditions. Please refer to the prospectus of the Company dated 28 October 2019 for further details of the vesting conditions.
- (2) The exercise price represents 30% of the final offer price of each Share upon Listing (i.e. HK\$1.59).
- (3) As one of the vesting conditions in relation to the financial performance of the Group for the year ended 31 December 2019 was not met, 50% of the share options expected to be vested on 9 November 2020 has lapsed on the date when the Board approved the final results of the Group for the year ended 31 December 2019 (i.e. 20 March 2020).

As both of the vesting conditions in relation to the financial performance of the Group for the year ended 31 December 2020 were not met, all of the share options granted to Mr. Zhang Hongyao, Ms. Gan Shuya and Mr. Bai Gongli expected to be vested on 9 November 2021 have lapsed on the date when the Board approved the final results of the Group for the year ended 31 December 2020 (i.e. 26 March 2021). Accordingly, the total number of Shares which may be allotted and issued upon exercise of all the outstanding options granted under the Pre-IPO Share Option Scheme as at the date of this report was 33,900,000 Shares, representing approximately 2.26% of the total number of Shares in issue as at the date of this report.

Except for the options which have been granted and lapsed under the Pre-IPO Share Option Scheme as set out above, no other share options have been granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme as at 31 December 2020.

REPORT OF THE BOARD OF DIRECTORS

RIGHTS TO ACQUIRE THE COMPANY'S SECURITIES

Save as disclosed above, during the Year, none of the Company, or any of its subsidiaries, was a party to any arrangement to enable the Directors to have any right to subscribe for securities of the Company or to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other body corporate.

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.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

There were no transactions, arrangements and contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director or a connected entity of a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the Year.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No controlling shareholder of the Company or any of its subsidiaries has any contract of significance (including contract of significance for the provision of services) with the Company or its subsidiaries subsisted during or at the end of the Year.

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

As at 31 December 2020, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 of SFO, or who was, directly or indirectly, interested in 5% or more of the issued share capital of the Company:

Long positions in the ordinary shares of the Company

Name of shareholders	Nature of interest	Number of ordinary Shares (Note 1)	Approximate percentage of shareholding
Ms. Luo Yumei	Interest of spouse (Note 2)	706,353,600(L)	47.1%
Rosy Astral	Beneficial owner	706,353,600(L)	47.1%
Polaris Swift Limited	Beneficial owner	417,822,000(L)	27.9%

Notes:

- (1) The letter "L" denotes the shareholder's long position in the Shares and underlying shares of the Company.
- (2) Ms. Luo Yumei is the spouse of Mr. Meng Fanyong. By virtue of the SFO, Ms. Luo Yumei is deemed to be interested in the Shares of the Company which Mr. Meng Fanyong is interested in.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

REPORT OF THE BOARD OF DIRECTORS

NON-COMPETITION UNDERTAKING

Each of Mr. Meng Fanyong, Mr. Meng Yuxiang and Rosy Astral (the “Covenantors”), each being a controlling shareholder of the Company, has entered into a deed of non-competition (the “Deed of Non-Competition”) in favour of the Company on 19 June 2019, pursuant to which each of the Covenantors has unconditionally and irrevocably undertaken to the Group that he/it will not, and will procure his/its close associates (other than members of the Group) not to directly or indirectly participate, acquire or hold any right or interest in or otherwise be involved in or undertake any business (other than the business of the Group) that directly or indirectly competes, or may compete, any business which is in any respect in competition with or similar to or is likely to be in competition with the business of the Group. For details of the Deed of Non-Competition, please refer to the Prospectus.

Each of the Covenantors has provided to the Company an annual written confirmation in respect of his/its compliance with the Deed of Non-Competition. The independent non-executive Directors have reviewed the compliance with the non-competition undertaking by the Covenantors under the Deed of Non-Competition and are of the view that such non-competition undertaking has been complied with during the Year.

CONNECTED TRANSACTIONS

On 14 September 2020, Dalipal (Cangzhou) Industrial Company Limited* (達力普(滄州)實業有限公司) (the “Purchaser”), an indirect wholly-owned subsidiary of the Company, as purchaser, Dalipal Group Co. Ltd.* (達力普集團有限公司) (the “Vendor”), as vendor, and Shengjie (Cangzhou) Oil Pipe Company Limited* (盛捷(滄州)石油管有限公司) (“Shengjie Pipe”), as the subject company, entered into an equity transfer agreement (the “Equity Transfer Agreement”), pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell the 1% equity interest in Shengjie Pipe at the consideration of approximately RMB11.4 million (the “Acquisition”). The consideration for the Acquisition was determined after arm’s length negotiations between the Purchaser and the Vendor with reference to the unaudited consolidated net asset value of Shengjie Pipe as at 30 June 2020 and shall be satisfied by the internal resources of the Group. The total consideration shall be paid in full and in cash by the Purchaser to Vendor within 30 days after the date of the Equity Transfer Agreement. As at the date of the Equity Transfer Agreement, the Vendor was owned as to approximately 50.7% by Mr. Meng Fanyong, an executive Director and a controlling shareholder of the Company. Accordingly, the Vendor was an associate of Mr. Meng Fanyong and a connected person of the Company under Chapter 14A of the Listing Rules. As at the date of Equity Transfer Agreement, Shengjie Pipe was an indirect non-wholly owned subsidiary of the Company, held as to 99% by the Purchaser and as to 1% by the Vendor. The Acquisition was part of the Group’s plan to undergo an internal corporate restructuring so as to simplify the structure of the Group. Upon completion of the Acquisition, Shengjie Pipe has become an indirect wholly-owned subsidiary of the Company. For details of the Acquisition, please refer to the Company’s announcement dated 14 September 2020.

A summary of the material related party transactions made during the year was disclosed in note 26 to the consolidated financial statements. Save as disclosed above, the related party transactions set out in note 26(a) and (b) to the consolidated financial statements also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, and such transactions are fully exempt from the requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions or continuing connected transactions.

PROPERTY INTERESTS

The Group holds 100% interest in various land parcels located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, the PRC with total site area of approximately 994,886.91 sq.m. for the construction of phase two production capacity expansion at the Group’s factory located at Bohai New District (“Phase Two Expansion”). The property under construction comprises portion of land parcels with a total site area of approximately 530,925 sq.m.. Construction for Phase Two Expansion is in progress as at the date of this report. It is expected that construction for Phase Two Expansion will be completed by June 2022.

REPORT OF THE BOARD OF DIRECTORS

EMOLUMENT POLICY

The emolument policy for the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted two share option schemes as an incentive to Directors and eligible employees, details of the scheme is set out in the section headed "Share Option Schemes" above and in note 20 to the consolidated financial statements.

PERMITTED INDEMNITY PROVISION

According to the Company's articles of association, each Director was entitled during the year ended 31 December 2020 and remains entitled up to the date of this report to the compensation out of the assets of the Company for all losses or liabilities incurred due to the execution of his/her duties or taken place related to such execution. The Company has taken out the appropriate Directors' and officers' liability insurance policy for the Directors and officers of the Group as a means of security.

EQUITY-LINKED AGREEMENT

Apart from the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, there was not any subsisting equity-linked agreement entered into by the Company as at the end of the Year.

TAX RELIEF

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

PRE-EMPTIVE RIGHTS

There is no provision regarding pre-emptive rights in the articles of association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro-rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the minimum public float of 25% as required under the Listing Rules as at the latest practicable date prior to the issue of this report.

AUDITOR

KPMG will retire and, being eligible, offer themselves for reappointment. A resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Mr. Meng Fanyong
Chairman

26 March 2021

CORPORATE GOVERNANCE REPORT

The Company was listed on the Hong Kong Stock Exchange on 8 November 2019. The Company's corporate governance situation during the Year was as follows. This report adopts the order of mandatory disclosure of corporate governance report in Appendix 14 to the Listing Rules.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to follow best practices in corporate governance in order to enhance the shareholders' value by ensuring standards in integrity, transparency and quality of disclosure. The Company has emphasizes on a quality board, sound internal controls, transparency and accountability to all shareholders as its corporate governance principles. The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. During the Year, the Company was in compliance with all relevant code provisions set out in the CG Code.

MODEL CODE SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standards of the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the Directors of the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the Year.

LEADERSHIP

Board of Directors

The Board is responsible for the leadership and control of the Company, and is responsible for setting up the overall strategies as well as reviewing the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall strategies of the Group, major acquisitions and disposals, annual budgets, annual and interim results, recommendations on Directors' appointment or re-appointment, approval of major capital transactions and other significant operational and financial matters. The Board has delegated to management the authority and responsibility for daily management of the Group, implementation of strategies approved by the Board, monitoring operating budgets, implementation of internal control procedures, and ensuring compliance with relevant statutory requirements and other rules and regulations. In addition, the Board has also delegated various responsibilities to the Board committees. Further details of these committees are set out in this report.

CORPORATE GOVERNANCE REPORT

Board Composition

The Board currently consists of nine Directors with the following composition:

Executive Directors

Mr. Meng Fanyong (chairman of the Board, chairman of Nomination Committee)
Mr. Zhang Hongyao (vice-chairman of the Board, re-designated from non-executive Director on 1 January 2020)
Ms. Xu Wenhong (chairlady of Corporate Governance Committee and Risk Management Committee)
Mr. Meng Yuxiang
Ms. Gan Shuya
Mr. Yin Zhixiang

Independent Non-Executive Directors

Mr. Guo Kaiqi (chairman of Remuneration Committee)
Mr. Wong Jovi Chi Wing (chairman of Audit Committee)
Mr. Cheng Haitao

To the best knowledge of the Company, except for Mr. Meng Fanyong is the father of Mr. Meng Yuxiang, none of the Board members have financial, business, family or other material/relevant relationships with each other. Such balanced Board is composed to ensure strong independence existed across the Board. The composition of the Board reflects the balanced skills and experience for effective leadership. The biographical details of Directors are set out on pages 5 to 7 under the section headed "Directors and Senior Management".

Independent Non-Executive Directors

All of the Company's independent non-executive Directors are experienced and of high calibre. They are equipped with academic and professional qualifications in either accounting, investment or oil pipe production. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each independent non-executive Director has given an annual written confirmation of his independence to the Company pursuant to Rule 3.13 of the Listing Rules, and the Company considers that all independent non-executive Directors are independent within the definition of the Listing Rules.

During the Year, the Board at all times has met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Chairman and Chief Executive Officer

Mr. Meng Fanyong is the chairman of the Board who is responsible for leading the efficient business development of the Group.

Mr. Bai Gongli is the chief executive officer of the Group who is responsible for the overall administrative and operational management of the Group.

RESPONSIBILITIES, ACCOUNTABILITIES AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

The Board is held accountable to the Company's shareholders and stakeholders. It is responsible for the overall leadership and control of the Company, oversees the Group's strategic decisions and performance, and is responsible for promoting the success of the Company. The Board makes decisions on the strategies of the Group in the best interests of the Group, and reserves its right of decision all major matters relating to budgets, policy, strategies, internal control, risk management, material transactions, financial information, appointment of Directors and other significant operational matters of the Company.

CORPORATE GOVERNANCE REPORT

All Directors have brought in precious and valuable business insights, experience and knowledge to the Board for its efficient and effective functioning. They are all provided with full and timely access to information of the Company as well as access to contact and services of the joint company secretaries and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors have disclosed to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company. The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Five board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the Risk Management Committee, are set up and delegated various responsibilities as set out in their respective terms of reference.

Through the chief executive officer of the Group whom the Board has delegated authorities, the senior management of the Group is provided with authority and responsibility for implementing the decisions of the Board, directing and co-ordinating the daily operations and management of the Group.

CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Code provision A.6.5 of the CG Code provides that all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the board remains informed and relevant.

All Directors have participated in continuous professional development and provided a record of training they received for the Year to the Company. During the Year, each of the Directors participated in continuous professional development by reading materials relating to the discharge of their duties and responsibilities and regulatory updates.

The Company has also continuously updated Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term subject to re-election. Code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

Each executive director has entered into a service contract with the Company, pursuant to which they have agreed to serve as executive directors for an initial term of three years beginning on 19 June 2019, which can be issued by any party for not less than three months Termination of written notice. The term of the service contract will be automatically renewed and extended for one year after the current term expires, until either party terminates by giving written notice to the other party at least three months in advance. Each independent non-executive director has been appointed for an initial term of three years beginning on 19 June 2019, and can be terminated by either party by giving a written notice to the other party at least three months in advance. The term of office will be automatically renewed and extended for two years after the expiry of the current term at that time, until either party terminates by giving written notice to the other party at least three months in advance.

None of the Directors has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

CORPORATE GOVERNANCE REPORT

The appointment of all Directors is subject to the provisions of retirement and rotation of Directors under the Company's articles of association. In accordance with the Company's articles of association, all Directors of the Company are subject to retirement by rotation at least once every three years and any new Director appointed to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment. Any new Director appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting. The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association.

JOINT COMPANY SECRETARIES

Ms. Wong Gianne and Mr. Chow Calvin Cheuk Yin are the joint company secretaries of the Company ("Joint Company Secretaries") responsible for providing compliance and company secretarial services to the Group and assisting the Group to cope with the changing regulatory environment and to suit different commercial needs.

Ms. Wong Gianne was appointed as one of the Joint Company Secretaries on 18 February 2019, and is the primary point of contact at the Company for the company secretarial matters. Mr. Chow Calvin Cheuk Yin was appointed as the other Joint Company Secretary on 26 February 2019.

Both Joint Company Secretaries undertook no less than 15 hours of professional training to update their skills and knowledge for the year ended 31 December 2020.

All Directors have access to the advice and services of the Joint Company Secretaries on corporate governance and board practices and matters.

BOARD COMMITTEES

Five Board Committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee, the Corporate Governance Committee and the Risk Management Committee are established for the roles of overseeing particular aspects of the Group under defined terms of reference. The terms of reference of the Board Committees are provided on the Company's website and the Stock Exchange's website. A list of the Chairman and members of each Board Committee is set out under "Corporate Information" on page 2 of this report.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wong Jovi Chi Wing (as committee chairman), Mr. Guo Kaiqi and Mr. Cheng Haitao.

The terms of reference of the Audit Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Audit Committee is mainly responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor; reviewing, in draft form, the interim and annual reports and accounts of the Group and significant financial reporting judgements contained therein; and overseeing the Company's financial reporting system, and the risk management and internal control systems.

The Audit Committee held five meetings during the Year. At the meetings, the committee reviewed the Group's unaudited financial statements as of the end of October 2020, external auditor KPMG's 2020 audit plan and quotation, and the terms of reference of the committee. The Audit Committee has also reviewed the Group's interim and annual results of 2020 and monitored the audit process with the attendance of the external auditors before reporting and submitting to the Board for their approval.

CORPORATE GOVERNANCE REPORT

Nomination Committee

The Nomination Committee comprises one executive director and two independent non-executive Directors, namely Mr. Meng Fanyong (as committee chairman), Mr. Guo Kaiqi and Mr. Cheng Haitao.

The terms of reference of the Nomination Committee adopted by the Board are aligned with the code provisions set out in the CG Code, and are currently made available on the websites of the Stock Exchange and the Company.

The Nomination Committee is mainly responsible for reviewing the Board composition, structure, size and diversity of the Board, assessing the independence of the independent non-executive Directors and making recommendations to the Board on the nomination, appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and CEO and reviewing the board diversity policy adopted by the Company. For more information on the Company's policy on board diversity, please refer to the section headed "Board diversity" in this report.

The Board has adopted written policy for the nomination of new directors. In evaluating and selecting candidates for directorship, the criteria to be taken into account when considering the suitability of a candidate shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of its responsibilities.

The Board has adopted procedures for nomination of new directors, pursuant to which (i) the Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new director and the biographical information of the candidate, evaluate such candidate based on the criteria set out in the written policy adopted for the nomination of new directors; (ii) if the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate; (iii) the Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship; and (iv) for any person that is nominated by a shareholder for election as a director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria set out in the written policy adopted for the nomination of new directors to determine whether such candidate is qualified for directorship.

To ensure a proper understanding of the operations and businesses of the Company and that he/she is fully aware of his/her responsibilities under the applicable laws and regulations (including the Listing Rules), the newly appointed directors will be provided with a comprehensive, tailored and formal induction on the first occasion of his/her appointment.

During the Year, the Nomination Committee held two meetings to discuss and review the suitability regarding Board size, structure and combination, in light of the Company's business and strategic direction.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Remuneration Committee consists of two independent non-executive directors and one executive director, namely Mr. Guo Kaiqi (as committee chairman), Mr. Cheng Haitao and Mr. Meng Yuxiang.

The terms of reference of The Remuneration Committee adopted by the Board are aligned with the code provisions set out in the CG Code and are currently made available on the websites of the Stock Exchange and the Company.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure on the remuneration packages for all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy.

The Remuneration Committee has adopted the approach under code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on remuneration packages of the Directors and the senior management.

During the Year, the Remuneration Committee held two meetings to discuss and review the Company's remuneration structure and amount of remuneration for the directors and chief executive.

The Company has adopted a pre-IPO share option and a post-IPO share option scheme on 19 June 2019 (the "Share Option Schemes"). The purpose of the pre-IPO share option scheme is to recognise and reward the contribution of certain directors and senior management of the Group to the growth and development of the Group and the Listing and the purpose of the post-IPO share option scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution of the Group. Details of the Share Option Schemes are set out in the Report of the Board of Directors. The emolument payable to Directors and senior management will depend on their respective contractual terms under service agreement/appointment letter and is fixed by the Board with reference to the recommendation of the Remuneration Committee, the performance of the Group and the prevailing market conditions.

Range of Remuneration of Senior Management

The remuneration, which included share-based payments, of the senior management of the Company for the Year, by band is set out below:

Remuneration Band	Number of individuals
HK\$Nil to HK\$1,000,000	–
HK\$1,000,001 to HK\$1,500,000	–
HK\$1,500,001 to HK\$2,000,000	–
HK\$2,000,001 to HK\$2,500,000	2
	2

CORPORATE GOVERNANCE REPORT

Corporate Governance Committee

The Corporate Governance Committee consists of one executive director and two independent non-executive directors, namely Ms. Xu Wenhong (as committee chairlady), Mr. Guo Kaiqi, and Mr. Wong Jovi Chi Wing.

The terms of reference of the Corporate Governance Committee adopted by the Board are aligned with the code provisions set out in the CG Code and are currently made available on the websites of the Stock Exchange and the Company. The Corporate Governance Committee is responsible for performing, and has performed, the functions set out in the code provision D.3.1 of the CG Code.

The Corporate Governance Committee is mainly responsible for proposing applicable principles of corporate governance and reviewing and determining corporate governance policies to maintain the effectiveness of the Group's corporate governance and non-financial internal control systems, thereby improving and ensuring the Group's corporate Governance practices meet high standards. During the Year, three meetings of the Corporate Governance Committee were held to discuss and review the corporate governance report prepared by the Company regularly.

Risk Management Committee

The Risk Management Committee consists of one executive director and two independent non-executive directors, namely Ms. Xu Wenhong (as committee chairlady), Mr. Guo Kaiqi, and Mr. Cheng Haitao.

The terms of reference of the Risk Management Committee adopted by the Board are aligned with the code provisions set out in the CG Code and are currently made available on the websites of the Stock Exchange and the Company.

The Risk Management Committee is mainly responsible for determining the overall objectives of risk management, approving strategies and monitoring and evaluating the effectiveness of the construction and operation of the risk management system, understanding and grasping the major risks and risk management status, and approving major risk response plans and risks manage organization structure and its responsibility plan, and approve the annual report of risk management and the audit report of annual risk management supervision and evaluation. During the Year, three meetings of the Risk Management Committee were held to discuss and review the internal audit and risk management report prepared by the Company regularly.

BOARD DIVERSITY POLICY

The Board has adopted a board diversity policy (the "Board Diversity Policy") setting out the approach to achieve diversity on the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance and hence the purpose of the Board Diversity Policy aims to build and maintain a Board with a diversity of Directors. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge.

The Nomination Committee will discuss and agree annually on the measurable objectives for achieving diversity on the Board and recommend candidate(s) to the Board for adoption. The Company aims to maintain an appropriate balance of diversity perspectives of the Board that are relevant to the Company's business growth. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee will also review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time. After assessing the suitability of the Directors' skills and experience relevant to the Company's business, the Nomination Committee considered that the existing Board was suitably qualified with professional backgrounds and/or equipped with extensive expertise for the purposes of providing direction to and oversight of the Group's strategic and business in achieving its objectives. Accordingly, no measurable objectives has been set at present.

CORPORATE GOVERNANCE REPORT

BOARD MEETINGS

The Company planned in advance four scheduled Board meetings a year at approximately quarterly intervals in order to ensure that all Directors could plan in advance their availability to attend the scheduled Board meetings. Additional meetings will be held as and when required. During the regular meetings of the Board, the Board reviewed the operation and financial performance, and reviewed and approved the annual and interim results of the Group.

During the Year, the Board has held six meetings. All directors were given the opportunity to include any matter on the agenda of regular board meetings, and had sufficient time to review in advance documents and data related to matters to be discussed at board meetings.

Board minutes are kept by the Joint Company Secretaries and are open for inspection by the Directors. Every Board member are entitled to have access to Board papers and related materials and have unrestricted access to the advice and services of the Joint Company Secretaries, and have the liberty to seek external professional advice upon reasonable request.

MEETING ATTENDANCE RECORDS

During the Year, five audit committee, two nomination committee, two remuneration committee, three corporate governance committee, three risk management committee, six board meetings and one annual general meeting had been held. The Company's director attendance is set out below:

Directors	Audit committee	Nomination committee	Remuneration committee	Corporate governance committee	Risk management committee	Board Meeting	Annual General Meeting
Mr. Meng Fanyong		2/2				6/6	1/1
Mr. Zhang Hongyao						6/6	1/1
Ms. Xu Wenhong				3/3	3/3	6/6	1/1
Mr. Meng Yuxiang			2/2			6/6	1/1
Ms. Gan Shuya						6/6	1/1
Mr. Yin Zhixiang						6/6	1/1
Mr. Guo Kaiqi	5/5	2/2	2/2	3/3	3/3	6/6	1/1
Mr. Wong Jovi Chi Wing	5/5			3/3		6/6	1/1
Mr. Cheng Haitao	5/5	2/2	2/2		3/3	6/6	1/1

Shareholders meeting

The Board is responsible for maintaining a continuous contact with shareholders, in particular communicating with shareholders through annual general meetings or other general meetings, and encourages shareholders to participate. One annual general meeting was held during the Year.

AUDITORS' REMUNERATION

During the Year, the fee for 2020 annual audit service and non-audit fees paid/payable to the Company's auditor, KPMG, was RMB2.2 million and RMB0.8 million, respectively.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the Year, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the accounts on a going concern basis.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The statement of the independent auditor of the Company about their responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on page 62 of this report.

Risk Management and Internal Controls

The Board acknowledges that it has overall responsibility for the design and implementation of internal controls and risk management which covers financial reporting, operations, compliance and risk management of the Company, as well as continuous monitoring the effectiveness of such internal controls and risk management. The Board has delegated such responsibility to the management of the Company. The management, under the supervision of the Board, has established an on-going process for identifying, evaluating and managing significant risks faced by the Group.

During the Year, the Audit Committee and the Risk Management Committee reviewed the internal controls and risk management that are significant to the Group on an on-going basis. The Audit Committee and the Risk Management Committee also consider the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, as well as their training programmes and budgets.

The Company has established a independent internal audit department. The Group has also engaged an independent professional firm to conduct a review of the effectiveness of the Group's internal control and risk management systems. The independent professional firm engaged has performed a review of the effectiveness of the internal control and risk management systems covering the year ended 31 December 2020. The review covered all key controls and based on inquiry, observation and analytical review procedures supplemented by testing of transactions, reports and reconciliation. The internal audit department has reviewed the review result submitted by the independent professional firm and recommended the same be submitted to the Audit Committee and Risk Management Committee. The overall opinion on the internal control and risk management systems of the Group are satisfactory.

For the Year and up to the date of this report, the Board has considered and is satisfied that the internal control system in place, which covers all material controls including financial, operational and compliance controls and risk management functions, is reasonably effective and adequate.

Procedures and Internal Controls for the Handling and Dissemination of Inside Information

Certain measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include the following:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- All employees are required to strictly adhere to the employment terms regarding the management of confidential information.

CORPORATE GOVERNANCE REPORT

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, are likely to be in possession of inside information in relation to the Company, are required to comply with the Model Code.

The Group complies with the requirements of the SFO and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures that the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in the announcements or circulars of the Company is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

INTERNAL AUDIT FUNCTION

The Company has established an internal audit department. The internal audit department is highly independent and is responsible for evaluating the effectiveness of the Company's risk management and internal control systems, and supervising the management to continuously improve the areas of risk management and internal control. The internal audit department examines key issues related to accounting practices and all major internal control issues, and provides investigation results and recommendations for improvement directly to the audit committee.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting ("EGM").

Shareholders to convene an EGM

Any one or more shareholders 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 (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the Joint Company Secretaries, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Eligible Shareholder(s) who wish to convene an EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong, which for the time being is at Room 1002, Beautiful Group Tower, 77 Connaught Road Central, Hong Kong, for the attention of the Company Secretaries, and state that the board of directors is required to convene a special general meeting to deal with any matters specified in the request. The relevant conference shall be held within two months after the submission of the relevant request.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included and the details of the business(es) proposed to be transacted at the EGM. The Requisition must be signed by the Eligible Shareholder(s) concerned.

The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder(s) will be verified with the Company's share registrar in Hong Kong, Tricor Investor Services Limited. If the Requisition is found to be proper and in order, the Joint Company Secretaries will ask the Board to convene an EGM within two (2) months and/or include the proposal or the resolution proposed by the Eligible Shareholder(s) at the EGM after the deposit of the Requisition.

CORPORATE GOVERNANCE REPORT

Putting enquiries by Shareholders to the Board

Shareholders shall mail a written inquiry to the Company's principal place of business in Hong Kong (Address: Room 1002, Beautiful Group Tower, 77 Connaught Road Central, Hong Kong, or email to ir@dalipal.com), stating that the recipient is the joint company secretary.

Procedures for shareholders to propose a person for election as a Director

If a shareholder wishes to propose a person other than a director of the Company for election as a Director, the shareholder must deposit a written notice (the "Notice") to the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for the attention of the Joint Company Secretaries of the Company.

The Notice must state clearly the name, the contact information of the shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and signed by the shareholder concerned (other than the person to be proposed). The Notice must also be accompanied by a letter of consent (the "Letter") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgement of the Notice and the Letter will commence no earlier than the day after the despatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven days prior to the date of such general meeting and the minimum length of the period during which the Notice to the Company may be given will be at least seven days.

The Notice will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Joint Company Secretaries will ask the Nomination Committee of the Company and the Board to consider to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Procedures for shareholders to put forward proposals at general meetings

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information at the principal place of business of the Company in Hong Kong, with a copy of the Proposal served to the Company's share registrar in Hong Kong at their respective address and contact details set out on page 3 of this annual report.

The request will be verified with the Company's share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders for consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

- (1) Notice of not less than twenty-one clear days and not less than twenty clear business days in writing if the Proposal requires approval in an annual general meeting of the Company; and
- (2) Notice of not less than fourteen clear days and not less than ten clear business days in writing if the Proposal requires approval in an extraordinary general meeting of the Company.

CORPORATE GOVERNANCE REPORT

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. As such, all the resolutions set out in the notice of the forthcoming annual general meeting of the Company will be voted by poll.

CONSTITUTIONAL DOCUMENTS

The Company's constitutional documents was changed and republished at 19 June 2019.

INVESTOR RELATIONS

The Company is committed to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings, as effective communication with shareholders is essential for enhancing investor relations and allowing investors to understand the Group's business performance and strategies. The Board endeavour to make themselves available at the annual general meeting to meet shareholders and answer their enquiries.

The 2021 AGM of the Company will be held on 28 May 2021, with notice of the 2021 AGM sent to the shareholders not less than 21 clear days and not less than 20 clear business days before the date of 2021 AGM.

The Company maintains a website at www.dalipal.com where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are made available for public access.

During the Year, the Company has changed and republished its articles of association at 19 June 2019. An up-to-date version of the Company's articles of association is available on the Company's website and the Stock Exchange's website.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

ABOUT THE REPORT

Dalipal Holdings Limited (hereafter referred to as the “Company” or “we”) and its subsidiaries (together, the “Group”) are pleased to present its second Environmental, Social and Governance Report (the “ESG Report” or the “Report”) for the year ended 31 December 2020 to provide an overview of the Group’s management of significant issues affecting the operation, including environmental, social and governance (“ESG”) issues.

The Board and the Risk Management Committee have overall responsibility for the Group’s ESG strategy and reporting. The Board and the Risk Management Committee are responsible for evaluating and determining the Group’s ESG-related risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place.

The Group understands the importance of the ESG Report and is committed to making continuous improvements in corporate social responsibility during our course of business in order to better respond to the changing needs of the advancing society.

REPORTING PERIOD

The Report illustrates the Group’s initiative and performance regarding the environmental and social aspects during the reporting period from 1 January 2020 to 31 December 2020 (the “Reporting Period”).

REPORTING SCOPE

This Report covers all subsidiaries of the Group in Hong Kong and Hebei Province, the People’s Republic of China (“PRC”) with core business that principally engaged in the development, manufacture and sale of oil country tubular goods (“OCTG”), other oil pipes and pipe billets. The Group will continue in assessing the impacts of its business on the major ESG aspects and to include in the Report.

REPORTING BASIS

This Report is prepared in accordance with the disclosure obligations under the “Environmental, Social and Governance Reporting Guide” (“ESG Guide”) as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and the “comply or explain” provisions contained therein. The purpose is to allow all stakeholders to learn more about the Group’s progress and development direction in respect of operation and sustainable development. Certain key performance indicator (“KPIs”), which is considered as material by the Group are disclosed during the Reporting Period, the Group will continue to optimize and improve the disclosure of KPIs.

A complete index is appended in the last chapter hereof for reading this ESG Report in accordance with the ESG Guide.

OPINIONS AND FEEDBACK FROM STAKEHOLDERS

We attach great importance to valuable opinions from all stakeholders. If you are in any doubt or have any opinion for this Report, please share your opinions and suggestions with us via E-mail at ir@dalipal.com.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

STAKEHOLDERS ENGAGEMENT

Stakeholders engagement is essential to the formulation of strategies for sustainable development. It allows the Group to understand the risks and opportunities. The Group has identified key stakeholders that are important to the Group's business and established various channels for communication. Through various communication channels, we collect stakeholders' opinions to understand their expectations for the Company's sustainable development, formulate measures to respond to stakeholders and use the opinions.

Stakeholder	Expectation	Communication channel	Measures
Government	<ul style="list-style-type: none"> - To comply with laws - Proper tax payment - Promote regional economic development and employment 	<ul style="list-style-type: none"> - On-site inspections and checks - Research and discussion through work conferences, work reports preparation and submission for approval - Public information disclosed in The Stock Exchange of Hong Kong Limited ("Stock Exchange"), such as: interim reports, annual reports, and announcements - Company website - Compliance control 	<ul style="list-style-type: none"> - Operated, managed and paid taxes according to laws and regulations, strengthened safety management; accepted the government's supervision, inspection and evaluation (if any), and actively undertook social responsibilities.
Shareholders and Investors	<ul style="list-style-type: none"> - Return on investment - Information disclosure and transparency - Protection of interests and fair treatment of shareholders - Business risk management 	<ul style="list-style-type: none"> - Annual general meeting and other shareholder meetings - Public information disclosed in Stock Exchange, such as: interim reports, annual report, and announcements - Meeting with investors and analysts - Company website 	<ul style="list-style-type: none"> - Issued notices of general meeting and proposed resolutions according to regulations, disclosed company's information by publishing announcements/circulars and periodic reports in the year. - Carried out different forms of investor activities with an aim to improve investors' recognition. Disclosed company contact details on website and in reports and ensured all communication channels available and effective.
Employees	<ul style="list-style-type: none"> - Safeguard rights and interests of employees - Working environment - Career development opportunities - Health and safety - Self-actualization 	<ul style="list-style-type: none"> - Regular meetings - Training, seminars and briefing sessions - Intranet and emails - Annual performance appraisal 	<ul style="list-style-type: none"> - Provided a healthy and safe working environment; developed a fair mechanism for promotion; cared for employees by helping those in need, organized employee activities and providing trainings

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Stakeholder	Expectation	Communication channel	Measures
Customers	<ul style="list-style-type: none"> - Safe and high-quality products - Stable relationship - Information transparency - Integrity - Business ethics 	<ul style="list-style-type: none"> - Company website, brochures, public information disclosed in Stock Exchange, such as: interim reports, annual reports and announcements - Email and customer service hotline - Feedback and report - Regular meetings - International certification 	<ul style="list-style-type: none"> - Strengthened quality management to ensure stable service quality, entered into long-term strategic cooperation agreements and obtained international certifications from professional institutions. - Applied sales management system to optimize sales process, enhance daily communication and maintain long-term cooperation with quality customers.
Suppliers/ Partners	<ul style="list-style-type: none"> - Long-term partnership - Honest cooperation - Fair and open - Information resources sharing for material customization - Risk reduction 	<ul style="list-style-type: none"> - Business meetings, supplier conferences, phone calls and interviews - Regular meetings - Review and assessment - Tendering process - Email, circulars and manual - Company website 	<ul style="list-style-type: none"> - Invited tenders publicly to select the best suppliers and contractors, performed contracts obligation according to agreements - Applied purchase system to smoothen purchase process, enhance daily communication, and maintain long-term cooperation with quality suppliers and contractors.
Peer /Industry associations	<ul style="list-style-type: none"> - Experience sharing - Corporations - Fair competition 	<ul style="list-style-type: none"> - Industry conferences - Site visit - Publicity of standards - Trainings - Seminars 	<ul style="list-style-type: none"> - Stuck to fair play, cooperated with peer to realize win-win results, shared experiences and attended different seminars of the industry so as to promote sustainable development of the industry.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Stakeholder	Expectation	Communication channel	Measures
Market regulator	<ul style="list-style-type: none"> – Compliance with the law and regulations – Information disclosures 	<ul style="list-style-type: none"> – Information disclosure – Reports – Consulting 	<ul style="list-style-type: none"> – Complied with regulatory requirements in a strict manner, disclosed and reported real information in a timely and accurate manner according to law.
Public and communities	<ul style="list-style-type: none"> – Community involvement – Social responsibilities – Employment promotion – Transparent information 	<ul style="list-style-type: none"> – Voluntary work – Charity and social investment – Media conference – Company website 	<ul style="list-style-type: none"> – Gave priority to local people seeking jobs from the Company so as to promote community building and development; protected the communities' ecological environment and provided timely compensation and assistance. – Issued promote and accurate information

A. ENVIRONMENTAL ASPECTS

Sustainable development is to protect our existing natural resources for future generations. As we become increasingly connected with our environment, the Group recognises our desire for clean environment and our responsibility as a corporate citizen, to demonstrate the Group's commitment to sustainable development and compliance with laws and regulations relating to environmental protection, we are constantly striving to innovate, reduce the impact on the natural environment, and protect the climate.

The Group has established regular emission reduction policies such as: using water-based paint as substitutes of oil-based paint; reconstruction of dust removal system of the plant to reduce the dust emission, as well as carrying our greening projects to increase vegetation, aims to achieve its established targets by reducing carbon dioxide emissions, resource consumption and waste generation.

A1: EMISSIONS

Exhaust Emission

The Group strictly complies with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Air Pollution Control Ordinance (《空氣污染管制條例》), Waste Disposal Ordinance (《廢物處置條例》), the Law of the People's Republic of China on Environmental Noise Pollution Prevention (《中華人民共和國環境噪聲污染防治法》), the Law of the People's Republic of China on Appraising of Environment Impacts (《中華人民共和國環境影響評價法》), Regulations on the Administration of Construction Project Environmental Protection (《建設項目環境保護管理條例》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), Decision of the State Council on Several Issues Concerning Environmental Protection (《國務院關於環境保護若干問題的決定》) and other applicable environmental laws and regulations, as the Group contains the intensity and total volume of its exhaust gas and greenhouse gas emissions from daily operations within the maximum limit allowed by the state.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

The Group uses natural gas as its main fuel consumption, during the Reporting Period, the total units of natural gas consumed were approximately 28 million cubic meters, of which approximately 27.9 million cubic meters were for industrial usage and approximately 0.1 million cubic meters were for non-industrial usage. During the Reporting Period, the Group reviewed the data collection method and disclosure of KPIs and considered that the exhaust emission of the Group mainly derived from the particulate matter, sulphur oxides and nitrogen oxides caused by the main facilities during the production process. To reduce the exhaust emission, the Group adopts low nitrogen combustion technology on the combustion system, equips advanced adsorption and catalytic combustion technology on the exhausted gas treatment facilities. At the same time, the Group equips the heat treatment furnace with thickened wall and the gas treatment system to reduce the emission of nitrogen oxides, sets live monitor at the main discharge ports to ensure the discharge be within limited continuously and substitutes the out-standard vehicles with environmental-friendly vehicles to reduce the exhaust emissions.

During the Reporting Period, industrial exhaust emission of the Group, including particulate matter, sulfur dioxide and nitrogen oxides had reached the minimum emission standard of Hebei Province. The permitted discharge level for the Group by the Bureau of Ecology and Environment of Cangzhou City of particulate matter reduced from 75.8 tons per year to 56.7 tons per year, that of sulfur dioxide reduced from 18.3 tons per year to 15.3 tons per year and that of nitrogen oxides reduced from 51.8 tons per year to 48.1 tons per year. After being audited, the emission of sulphur oxides was approximately 3.3 tons, that of nitrogen oxides was 24.3 tons and that of particulate matter was 56.1 tons, all had reached the requirement.

During the Reporting Period, the Group consumed an aggregate of 82,084 litres of petrol and an aggregate of 111,145 litres of diesel for vehicles in total. The driving mileage which could be counted was 226,271 km in total (2019: 202,160 km). Due to the expiration of the vehicle rental agreements with third party and rising demand on the transportation within plant resulted from the operation of new production line, the frequency of using Group's own vehicles increased. To reduce unnecessary exhaust emissions, we encourage employees to take public transport as much as possible when visiting customers and only use Group's vehicles in special cases. Meanwhile, the Group encourages employees to take electric public transport whenever possible for external meetings or activities and reduce the use of private cars. For nearby activities, the Group encourages employees to walk instead of riding a vehicle. We also optimize the industrial procedure to reduce the frequency of transportation within plant.

Greenhouse Gas Emissions

There is consensus that human activity is causing climate change. The warming climate has significant negative impact on human health. The Group is committed to take sustainable, long-term actions to manage the carbon footprint of our own operations.

The elevated greenhouse gas (GHG) concentrations in the atmosphere has resulted in increased atmospheric heat retention and rising global average temperatures. As the largest contribution of the Group's carbon footprint came from sources such as purchased electricity, business travel, and vehicles, we continue to work on reducing travel and consolidating office space, encourage the employees to conduct conference calls or video conferences instead of face-to-face meetings in addition, we also arrange commuter vehicles for our employees to reduce indirect greenhouse gas emissions from transportation, as well as developing energy saving policies (as mentioned in the section "Use of Resources") and green purchasing policies and strength the greening project of the plant area to reduce the GHG emission by reducing energy consumption in the business operation.

This Report focuses on emissions of equivalent CO₂ emission and includes Scope 1, which are direct emissions from the stationary and mobile combustion owned by the Group and GHG removals from newly planted trees; Scope 2, which is indirect emission generated by consumption of purchased electricity by the Group and Scope 3, which is Indirect emission from air business trips by employees of the Group.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the Reporting Period, as the Group uses natural gas as its main fuel consumption, the Scope 1 of the emissions of equivalent CO₂ emission of the Group all derives from the fuels used by vehicles. Due to the operation of new production line, the Group purchased electricity increased approximately 4 million kWh compare with last year. Furthermore, as a result of the COVID-19 pandemic (the "Pandemic"), air business trips of employee were 78 times less than last year. With the combined effect of these reasons, the greenhouse gas emissions during the Reporting Period increased by approximately 4 million kg from approximately 372 million kg equivalent CO₂ for the year ended 31 December 2019.

During the Reporting Period, greenhouse gas emissions were as follows:

Greenhouse Gas Emissions	
Type of GHG emissions	Equivalent CO₂ emission (kg)
Scope 1 – Direct Emissions	205,322.23
Scope 2 – Energy Indirect Emissions	376,096,836.72
Scope 3 – Other Indirect Emissions	15,973.70
Total	376,318,132.65

Waste Management

With the scarcity of resources and energy, countries around the world are paying more attention to waste recycling. The Group is also aware of the importance of reducing waste to the company's development. Waste management is imperative to the well-being of staffs, the environment and in most cases your own profits.

The Group has implemented several strategies in reducing and recovering waste during its production operations. For the Group's daily operation, there are two primary waste, hazardous waste (that is dangerous or potentially harmful to our health or the environment) coming from the production process mainly involves dust ash, waste mineral oil, sludge, waste paint, paint residue, etc. and non-hazardous waste that generated during production activities, such as electric furnace slag, refining slag, scale and waste refractory.

The Group strictly complies with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and other relevant environmental laws and regulations and appoints a professional waste removal company to dispose and treat the hazardous waste. The professional waste removal company is qualified to collect, store, handle and dispose of wastes.

The Group is committed to reducing waste production and advocates the adoption of the following emission reduction measures:

- continue modification project of the ultra-low-emission dust removal system for bench of pipe billets
- continue modification project of the ultra-low nitrogen emission for natural gas boilers
- use clean energy natural gas as raw material for the new heating furnace and adopt low nitrogen combustion technology on the combustion system
- set up air gathering mantle and dust removal system on the relevant dust production procedures
- adopt water-based paint at spraying process
- equip advanced adsorption and catalytic combustion technology on the exhausted gas treatment facilities
- recycle the metal material

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

- strengthen the maintenance of equipment to prevent dripping and leaking
- improve the technology and use premium material to reduce furnace cinder
- use dedicated packaging bag and warehouse to store waste
- record and manage hazardous waste strictly according to the management requirements
- control the type of scrap metals to reduce the scale of light and thin materials entering the furnace to lower the dust and gas emission
- use water-based paint and reduce the numbers of waste paint and thinner buckets
- reuse the sewage after being treated in the sewage treatment system by filter, adsorption, ultrafiltration and reverse osmosis
- establish the annual plan for waste management, allocating responsibility and target and enhance monitor.

During the Reporting Period, due to the usage of new product line, the amount of waste were increased. There was no material breach of or non-compliance with the applicable laws and regulations related to environmental protection, the wastes generated by the Group are as follows:

Type of Wastes Generation	Wastes	Amount of Wastes (tonnes)
Hazardous waste		
Hazardous waste generated by production		5,072.65
Non-hazardous waste		
Non-hazardous waste generated by production		37,906.31

A2: USE OF RESOURCES

The Group places high priority on the efficient use of resources. The major resources used by the Group are electricity, water, and paper. The Group strives to improve the efficient use of natural resources, such as minimising waste/emissions and implementing effective recycling program. During the Reporting Period, the Group has complied with relevant laws and regulations in relation to the use of energy.

The Group did not use any packaging material for its goods during the Reporting Period.

Electricity

The Group acknowledges the importance of electricity and energy saving and the fact that reducing electricity consumption will indirectly reduce greenhouse gas emissions. Therefore, the Group encourages various energy saving measures, including:

- set energy saving mode for electrical appliances where possible
- set idle automatically mode for computers
- switch off the power supplies when they are not in use
- update electric systems, such as compressed air tubes and boiler.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Energy consumption by the Group during the Reporting Period is set out below:

Energy Consumption	
Type of energy	Energy consumed (GWh)
Purchased electricity for production purpose	386.3
Purchased electricity for non-production purpose	2.2
Total	388.5

Water

Water is essential to our business and we have approached water management accordingly. Across our system, we are reducing the amount of water we use during the production processes. We post water saving tips in the restroom and pantry to remind staff of their water use behaviours. We also updated the cooling system of the crystallizer so that we can save 450 m³ water per day during June to September, save approximately 40 thousand m³ per year. The Group did not encounter any problems in sourcing water that is fit for purpose.

During the Reporting Period, the water consumption of the Group is as follows:

Water Consumption	
Type of water consumption	Water consumed (M³)
For production purpose	640,543.0
For non-production purpose	175,778.0
Total	816,321.0

Paper

Reduction in paper use indirectly reduces the overall GHG emission. The Group has been taking the following steps to reduce paper consumption:

- advocate the use of email to reduce the use of paper
- use multiple office software for online work to reduce the paper usage and delivery
- reduce the use of paper by printing or photocopying on both sides of paper, where applicable
- follow the printing paper usage budget strictly, for the excess parts, need approval to reduce the paper usage
- encourage the employee to use suitable font size/shrinkage mode to minimise pages, if possible. Besides, electronic media is recommended for circulation/communication, to minimise using paper.

The Group will keep recording its resource consumption for reviewing effectiveness of its conservation measures in the future and formulating more specific improvement measures and objectives.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

A3: THE ENVIRONMENT AND NATURAL RESOURCES

Recognising that environmental protection is an important obligation of global enterprises, the Group complies with all applicable environmental laws and regulations and make great efforts to reduce consumption of resources and energy. The Group regularly assesses its environmental risks incurred from operations, review its environmental practices and adopt necessary preventive or improvement measures. For example, equipping the heat treatment furnace with thickened wall and the gas treatment system to reduce the emission of nitrogen oxides, setting live monitor at the main discharge ports to ensure the discharge be within controlling index continuously, replacing the out-standard vehicles with environmental-friendly vehicles, optimising our technical process to save energy and reduce carbon emission, executing minimum discharge standard of Hebei Province and strengthening trainings to employee on environment and safety. The Group communicates with its suppliers and business partners to better understand their environmental policies and procures and purchase more environmental equipments. Leveraging on the policies mentioned in the sections headed "Emissions" and "Use of Resources" above, the Group will continue to implement environment-friendly practices in the Group's operation in order to enhance environmental sustainability.

A4: CLIMATE CHANGE

The Group understands that protecting the environment and minimising its adverse environmental impact from business operation are the continuing obligations of a good corporate citizen. These are carried out with the purposes of fostering the sustainable development of the Group's business and the environment. The Group regularly assesses its environmental risks incurred from operations, review its environmental practices and adopt necessary preventive or improvement measures, such as:

- optimize the production process, greatly reduce the electricity and natural gas consumption per ton of product, reduce the use of carbonaceous raw materials and use frequency conversion energy-saving equipment to effectively reduce energy consumption and reduce carbon emissions
- carry out greening works in the plant area to increase vegetation and improve the environment
- strengthen employee training, improve environmental protection awareness, encourage green travel and reduce private vehicle exhaust emissions
- provide commuter vehicles for employees, and electric shuttle bus in the plant area to reduce other vehicles exhaust emissions
- substitute the out-standard vehicles with environmental-friendly vehicles
- equip the heat treatment furnace with thickened wall and the gas treatment system to reduce the emission of nitrogen oxides
- utilize heat recycle to heat the office and living area

SOCIAL ASPECTS

B1: EMPLOYMENT

We believe that the employees are the most important and valuable assets of the Group. We put great emphasis on the protection of the legitimate rights and interests of all employees. During the Reporting Period, the Group strictly complied with labour legislations and related regulations in the PRC and Hong Kong. The Group was not involved in any confirmed violation relating to employment that have a significant impact on the Group.

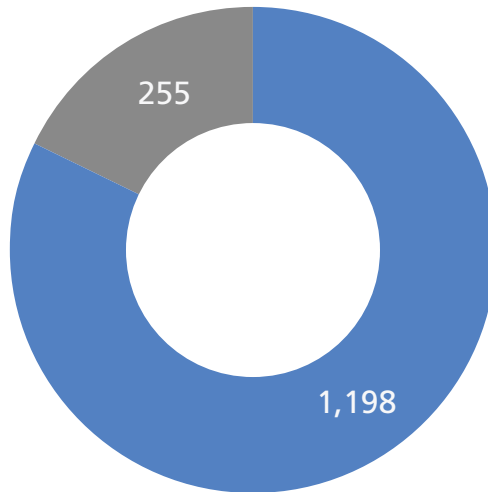
We are committed to be an ideal employer of choice and providing a healthy working environment where our employees can thrive. We have established an effective system of employment policies, including equal recruitment policy, equal promotion policy, work-life balance policy, compensation policy, remuneration and allowance policy, dismissal and retirement policy, anti-discrimination policy, diversity policy, training policy, employee welfare and benefit policy. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

As at 31 December 2020, the Group had a total of 1,453 employees (2019: 1,888), all of them are full-time employees, with the employee structure as follows:

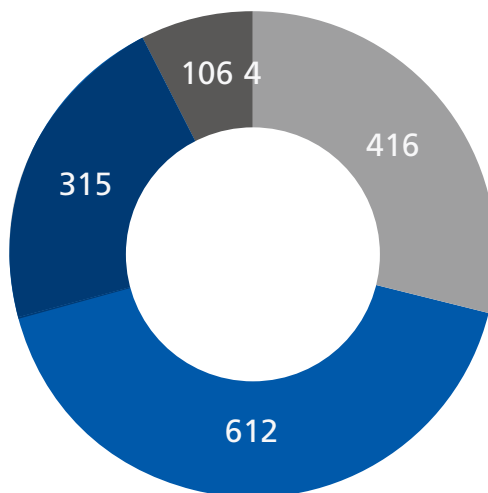
GENDER

■ Male ■ Female



AGE GROUP

■ 18-20 ■ 20-30 ■ 30-40 ■ 40-50 ■ Elder than 51



ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the Reporting Period, the turnover rate for male is 26.02% (2019:8.74%) while it is 23.18% (2019: 1.81%) for female. The turnover rate for age group between 20-30 is 45.86% (2019: 4.7%), for 30-40 age group is 20.22% (2019:3.90%), for 40-50 age group is 14.83% (2019: 1.37%), whereas for age elder than 50 is 12.23% (2019: 0.58%). The increase in the turnover rate is the result of different calculation method for better demand analysis on the personal, which changed from employees in the specified category leaving employment divided by total number of employees to employees in the specified category leaving employment divided by number of employees in the specified category. Furthermore, due to the impact of the Pandemic and the prophylactic measures took by the government, the turnover rate also increased.

Talent Acquisition and Retention

Our staff is the cornerstone of our corporate operation and development, therefore, we have a fair and equitable talent selection system, which undergoes optimisation from time to time for talent recruitment. We have formulated annual recruitment plans and generally recruit our employees through campus recruiting and placing advertisements in the open market with reference to factors such as experience, qualifications and expertise required for our business operations. Staff are normally subject to three-month probation period starting on board. In general, our Group determines employee's remuneration based on each employee's qualifications, position and seniority and remuneration policies established by us. Our Group has designed an appraisal system to assess the performance of our employees, which forms the basis of our decisions with respect to salary adjustments, bonuses and promotions. We believe that the above arrangement can maintain good relationship with our employee.

Remuneration and Benefits

We offer reasonable and competitive salary and benefits to staff. Employees are awarded a salary adjustment and promotion based on their job performance as well as progress achievement and the results of performance appraisal. We make timely contribution to social insurances (i.e., pension, medical insurance, unemployment insurance, maternity insurance, and occupational injury insurance) and the housing fund (五險一金), mandatory provident fund and employees' compensation insurance in strict accordance with the Social Security Law of the People's Republic of China and the Labor Law of the People's Republic of China, Mandatory Provident Fund Schemes Ordinance of Hong Kong and Employees' Compensation Ordinance of Hong Kong.

We provide dormitories for our staff, also provide family dormitories for families where both spouse are our employees, which are equipped with free Wi-Fi, dormitory necessities and parcel pick up machine. Meanwhile, we also provide subsistence allowance to our staff, including meal, water and electricity subsidies. We purify seawater for staff use. We would replace and repair air-conditioners in a timely manner and gradually improve living condition at dormitory. In addition, we provide shuttle bus services for employees to commute. We also organise staff activities to facilitate interaction among them and enhance their sense of belonging regularly. During Reporting Period, we organized annual meeting, chorus competition, basketball competition, team building activities, movie watching, technical competition, the quiz and etc. Festival welfare have also been granted to staff, such as dumplings and lucky envelope for lunar new year and moon cakes for mid-autumn festival.

Equal Opportunities and Diversity

The Group is committed to providing a fair and equitable workplace where all individuals are treated equally in every aspect of their work or employment. Candidates and employees have equal opportunities to employment, remuneration and promotion. We will not conduct or tolerate discrimination or harassment against individuals on the basis of age, gender, race, marital status, religion healthy status or any legally protected ground or on any other ground which we consider inappropriate and unacceptable.

We also place high value on female employees' career development by ensuring that they have the same promotion opportunities as male staff. We also comply with the requirements of the Law on the Protection of Women's Rights and Interests of the People's Republic of China, which stipulates that female employees are entitled to basic salary and their employment contracts will not be released or terminated, without cause, during their pregnancy, maternity leave or breastfeeding period.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Dismissal policy

With regards to the policies relating to dismissal of employees, if an employee has committed serious misconduct and fails to improve in spite of repeated warnings, his/her supervisor and the senior management of the Company will have a thorough internal discussion and allow the employee to answer and explain before the dismissal is announced. The reasons for the dismissal will be conveyed to the employee clearly. Enough notice would be delivered to staff and hand-over procedure should be completed before leaving the Company. The dismissal procedure must be in accordance with applicable laws and regulations as well.

Staff communication

We appreciate the significance of communication with and care for our employees. We believe that maintaining a close relationship with our staff allows us to better understand their needs. Besides employee orientation with introduction of corporate system, culture and other information, the Company pay close attention and listen to our employees about their daily work condition, working environment and personal career development, and reply one by one, with a view to properly adjusting our internal resources and policies. Hot lines and email have been set up for employees to report any fraud, corruption and bribery.

B2: HEALTH AND SAFETY

The Group is committed to ensuring a sound and safe working environment for our employees to prevent injury and illness, in compliance with all relevant legislation. People are crucial to the sustainable development of our Group. We manage the safety of our staff in accordance with relevant occupational health and safety laws and regulations. During the Reporting Period, there was no non-compliance by the Group of the laws and regulations relating to providing a safe working environment and protecting employees from occupational hazards. We strive for the highest standards of safety and health performance by taking into consideration of all possible precautionary measures to achieve a zero-incident working environment.

We have obtained the GB/T24001-2016 environmental management systems certificate, GB/T45001-2020 Occupational health and safety management system certificate and the Q/SY1002.1-2013 HSE system certificate by China National Petroleum Corporation. We have established a set of policies on the safety, such HSE management handbook, reward and punishment policy on production safety, responsibility management policy on production safety, risk identification and management policy on production safety and safety accident emergency plan. Staff need be trained and pass safety test before on board. We also conduct regular trainings and safety inspections to prevent any accident.

We implemented on-site noise control measures, including: use low-noise equipment, such as high power dust removal fan, water pump and etc., adopt basic vibration reduction and noise reduction measures, such as adding the muffler to dust removal exhaust, soft connection for continuous caster fan and the flue, setting cushioning material at roller and bench to reduce collision noise in the oil tube, using non-noise material bucket and at meantime, adopt sound insulation in the wall of plants to reduce the noise effect to surroundings. In addition, we configure professional earplugs for employees to minimize the impact of noise.

Meanwhile, we set up a green channel in the plant to distinguish the operation area with non-operation area. The green channel can be used as a safe passage for non-workers and outsiders as well as an escape route in emergency situations.

Following the outbreak of Pandemic in early 2020, a series of precautionary measures have been adopted by the Group according to the requirement of the government, including providing masks to staff and setting specialized wastebin to dispose masks, sterilizing the factory all over, sterilizing office and living area timely, requiring employee to sit diagonally in the dining hall to widen dining distance, security personnel are on duty 24 hours at the entrance to supervise the visitors and the employees taking shuttle bus to wear masks, show their health code, measure their body temperature and register, establish medicine observation room and purchase other precautionary material.

During the Reporting Period, we obtained the champion at the Micro Fire Station Competition hold by the Rescue Team of Cangzhou Bohai New District Fire Service.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

During the Reporting Period, there were 2 minor accidents of work-related injuries (2019: 4 minor accidents of work-related injuries), mainly attributable to improper use of machineries and equipment malfunction. No severe or lethal industrial accident was recorded by the Group. The days lost due to work injury is 214 days (2019: 270 days) in total. We will continue to foster greater safety awareness amongst our employees through series of on-the-job training.

B3: DEVELOPMENT AND TRAINING

The Group recognises the importance of training for the development of our employees as well as our Group. The Group has established Monthly Training Planning to conduct periodic training to our employees regarding the requirements of their job duties. All employees must comply with the codes and policies and obtain required knowledge and techniques for their positions by passing the examinations after the trainings.

New joiners will receive induction training covering corporate culture, regulations and system, environmental health and safety training, job skills and work procedures. That helps employees to better understand the working environment. Moreover, to enhance employees' awareness and knowledge in occupational health and safety are the basis of preventing work-related incidents, the Group has implemented different safety training programmes for employees at all levels. The Group also set up corporate university and invited professional teachers for special trainings to enhance management. The Group also organized employee to attend external trainings and provide internal trainings as company policy require.

Training courses held during the Reporting Period primarily covered:

- new employee orientation
- business etiquette training
- training on company policies and procedures
- professional technical training
- production safety and relevant laws and regulations training
- training on emergency issues
- mechanical equipment operation and maintenance training
- training on quality and safety control
- training on fire safety
- training on probity and self-discipline

During the Reporting Period, the Group had 2,005 participants with 7,161 person-times of our trainings, total training hours are 465,022.02 hours. The Pandemic resulted in the decrease in the person-times of trainings since the Group wanted to reduce gathering to avoid risk. Statistics of trainings by position are as follows:

Positions	Trained person-times	Trained employees	Trained ratios	Average training hours
Senior management	120	15	1.68%	102.90
Middle management	411	130	5.74%	67.35
Others	6,630	1,860	92.58%	122,73
Total	7,161	2,005	100.00%	292.99

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

B4: LABOUR STANDARDS

The Group is fully aware that child labour and forced labour violate fundamental human rights and also pose threat to sustainable social and economic development. The Group strictly complies with the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China, Employment Ordinance of Hong Kong and other relevant labour laws and regulations in Hong Kong. The Group has established the Employment Policy, prohibiting the use of child labour and forced labour. The employee should produce his/her original identity card for verification when on board and only employee with legal age could be recorded in the human resources management system. Employment contracts and other records, including all relevant details of the employees are maintained properly for verification by relevant statutory body upon request.

During the Reporting Period, the Group has complied with policies and relevant laws and regulations regarding prevention of child labour or forced labour.

B5: SUPPLY CHAIN MANAGEMENT

The Group works closely with its suppliers who are committed to high quality, environmental, health and safety standards. As part of our commitment to environmental protection, product quality and social responsibility, we recognised the great importance of supply chain management and formulated internal policies and guidelines and selection of external suppliers.

The Group has a stringent supplier selection process and management approach to ensure healthy and sustainable relationship with suppliers. We will take multiple selection criteria and supplier assessment into account when accessing suppliers' profile and principles, such as product quality, labour standards, environmental and quality management and ethical business conduct. We request our suppliers to use recyclable packaging material and we would check the radioactivity of the main material one by one before stock-in. We strive to cooperate only with the suppliers who share the same principles with us.

We have established comprehensive quality assurance system, every batch of material should be checked before stock-in or using. A mechanism to handle unqualified material with suppliers has been adopted as well. We also carry out regular on-site inspection and check the validity period of suppliers' qualification certificates (for example, Environment Management System Certificate, Quality Management System Certificate and Occupational Health and Safety Management System Certificate) to monitor and evaluate the performance of our suppliers. We maintain a list of approved suppliers which is updated according to our assessment of their performance on a continuous basis.

During the Reporting Period, we adopted a purchase system to enhance the communication and monitor of suppliers. The potential suppliers are requested to upload their certificates through the system. We would initiate the assessment on the potential suppliers before entering into cooperation with them. The system would request the suppliers to upload the updated certificates when they are about to expire. We also use the purchase system to conduct quotation and comparison process to choose the appropriate suppliers. Every contract with suppliers should be approved by the risk management department before signing.

Thus, we believe there are no significant environmental and social risks for our management decision on supply chain management.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Suppliers by region and type:

Amount	Region	Main material suppliers	Supplementary material suppliers
	Tianjin	6	4
	Shandong Province	3	10
	Hebei Province	0	5
	Jiangsu Province	2	8
	Jiangxi Province	5	0
	Anhui Province	0	2
	Zhejiang Province	0	1
	Liaoning Province	1	6
	Henan Province	3	8
	Beijing	0	3
	Shanghai	0	2
	Hunan Province	2	3
	Inner Mongolia Autonomous Region	1	3
	Ningxia Hui Autonomous Region	0	1
	Jilin Province	0	1
Total		23	57

B6: PRODUCT RESPONSIBILITY*Quality assurance*

The Group endeavours to offer high-quality products and services. We are committed to improve our product quality, attract new customer and strengthen the relationship with existing customers. We have established a comprehensive quality assurance system. The Group has set up a competent comprehensive quality control department, which implements product quality standards in strict compliance with customers' requirements.

We are pleased to listen to consumers' opinions. Customers can express their opinions by verbal form, telephone, mail, fax, visiting or other form to the Group. The Group has developed Customer Complaint Handling Mechanism to investigate and handle complaints promptly as well as feedback to client. After receiving complaint from customer, the sales department would share relevant information to quality management department, technical department, financial department and responsible senior management. The general manager would also be reported with significant complaint. The technical department would lead a handling team to conduct on-site investigation. After investigation, a proposal would be raised for approval from the senior management, while sales department is responsible to communicate with client on the proposal. During the Reporting Period, there is no products and services related complaints received and there is no product recall for health and safety problems. We have been granted as the Premium Brand of Hubei (河北優品牌) by the Association of Trademark and Brand of Hubei Province (河北商標品牌協會), the Quality Benchmark of Industrial Enterprises of Hubei Province (河北省工業企業質量標桿) by the Department of Industrial and Information Technology of Hubei Province (河北省工業和信息化廳).

Product Responsibility

Ensuring customer satisfaction with our products and services is a priority for the Group. We place importance on the quality standard of our products and services to achieve sustainable growth of our business. We are committed to ensure compliance with the laws and regulations relating to product health and safety, labelling and privacy matters including the Product Quality Law of the PRC and the Hong Kong Personal Data (Privacy) Ordinance. Policies about product quality and safety as well as compliance with laws and regulations have been clearly stated to the employees and suppliers. During the Reporting Period, we had no violation record on relevant laws and regulations that have a significant impact on the Group relating to product responsibility issues.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Privacy Protection

The Group takes privacy issues of our customers, internal employees, data, and external partners and suppliers very seriously. We have established confidentiality guidelines in order to demonstrate our firm commitment to privacy issue. The customers' information should not be revealed to anyone other than staff who are in the normal course of conducting duties and responsibilities. Disclosure of customers' confidential information to unauthorised personnel is prohibited and could result in disciplinary action, up to and including termination of employment.

Intellectual Property Rights

The Group strives to safeguard and protect intellectual property rights. We have established intellectual property rights management policy. We have passed the certification of intellectual property management system and currently implement GB/T29490-2013 standard. Relevant program files have been developed in the system to ensure the effective operation of the system and ensure the protection of intellectual property of our products without infringing the intellectual property of others. The intellectual property rights protection term has also been added in the contracts to make sure counterparties of the contracts are in the same practice on protect the intellectual property rights. During Reporting Period, we have been awarded the title of Intellectual Property Rights Advanced Enterprise of Hebei Province (河北省知識產權優勢企業) by the Hebei Administration for Market Regulation (河北省市場監督管理局).

B7: ANTI-CORRUPTION

Our Group believes the integrity and commitment of our employees are our critical factors to success. The Group has implemented "Anti-fraud, Anti-Corruption and Anti-Commercial Bribery Management Policy" with its formulation of Anti-business Corruption Regulation based on the Anti-Money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Prevention of Bribery Ordinance (《防止賄賂條例》) (Cap. 201 of the Laws of Hong Kong) and other national or regional laws and regulations to set out our commitment to preventing all forms of corrupt practices. Employees are required and have the responsibility to conduct themselves with integrity in an ethical and proper manner. Payments or acceptance of any kickbacks from external parties is strictly prohibited. The Group takes disciplinary action to combat against any violation of the Group's regulation. We also have the same expectations for our suppliers and other business partners.

Employees in sensitive positions such as purchasing positions, quality inspection positions, and sales positions shall enter into "Promise of integrity and self-discipline for employees". "Probity Commitment" is also required to be entered into with customers or suppliers before transacting with them, promising no behaviour violating the principle of good faith such as fraud and bribery in any business connection. We have posted a hotline on our company website and the purchase system for whistle-blowing. Suppliers can also report bribery to us by complaint on our purchase system with message.

Employees in sensitive positions should be trained on anti-corruption at least quarterly, other employees and departments should be trained or organize training at least annually to promote the awareness of integrity. We also emphasis integrity and anti-corruption to Communist Party members at Communist Party meeting. We will continue to fight corruption and bribery to eliminate dishonest act in business.

The Group endeavours to prevent any non-compliance to relevant laws. To enhance corporate governance, the Group sets up Audit Committee and engages external lawyers and auditors to review and provide opinions on the company's financial report and other compliance issues. Besides complying with the requirement to the corporate governance of listing companies enforced by the Stock Exchange, we constantly review the effectiveness of our internal control measures to enhance governance level.

Whistle-blowing policy

The Group sets up report channel to encourage employees, suppliers and clients to raise concerns about suspected misconduct, malpractice or irregularities in confidence. All reported cases are promptly and thoroughly investigated by the Group's internal audit department and reported to the Audit Committee and the Board while the confidentiality is respected in order to protect individuals. If there is sufficient evidence to suggest that a case of possible corruption exists, the case will be reported to the relevant local authorities.

During the Reporting Period, there was no incident of non-compliance with the relevant laws and regulations that have a significant impact on the Group relating to corruption, bribery, extortion, fraud and money laundering.

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

B8: COMMUNITY INVESTMENT

Our Group believes in the concept of giving back to the community, as contributing to society is one of the Group’s sustainable development strategies. We are committed to creating employment opportunities for local people and promoting the economic development of the community. We believe that through community investment, a socially responsible corporate culture and practice can be nurtured in the Group. The Group strives to develop long-term relationship with our stakeholders and seek to make contributions to programmes that have a positive impact on community development.

During the Reporting Period, the Group had donated 30,000 masks to Bohai New District, Gaoxin District and Economic Development Bureau of Xinhua District of Hubei Province respectively, 400 masks to Chinese business organization on America and RMB11,625 to 中共華北石油管理局有限公司華美綜合服務處 to support the control of the Pandemic. The Group encourages employees to participate in donation activities to make contribution to the society and help employee with economic difficulty, RMB41,620 for public welfare has been donated to Labour Union of Bohai New District and RMB179,387.73 to our employee with economic difficulty. We value the national security and organized education and publicity activities. During the Reporting Period, approximately 40 employees participated in the tree planting activity with approximately 450 trees have been planted. Looking forward, the Group will continue to take part in other activities to give back to society and help the needy, including organising activities and joining those held by other organisations.

THE STOCK EXCHANGE OF HONG KONG LIMITED’S ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

Subject areas, aspects, general disclosures and KPIs		Section	Page
Environmental			
A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	“Emissions”	41-44
KPI A1.1	The types of emissions and respective emissions data.	“Emissions”	42
KPI A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	“Emissions”	43
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	“Emissions”	44
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	“Emissions”	44
KPI A1.5	Description of emission target(s) set and steps taken to achieve them.	“Emissions” and “Use of Resources”	41-43
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	“Emissions”	43-44

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Subject areas, aspects, general disclosures and KPIs		Section	Page
A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	"Use of Resources"	44-45
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	"Use of Resources"	45
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	"Use of Resources"	45
KPI A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	"Use of Resources"	44-45
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	"Use of Resources"	45
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	"Use of Resources"	44
A3: The Environment and Natural Resources			
General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	"The Environment and Natural Resources"	46
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	"Emissions" and "Use of Resources"	41-46
A4: Climate Change (Note 1)			
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	"Climate Change"	46
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	"Climate Change"	46
Social (Note 2)			
Employment and Labour Practices			
B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.	"Employment"	46-49
KPI B1.1	Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region.	"Employment"	47
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	"Employment"	48

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Subject areas, aspects, general disclosures and KPIs		Section	Page
B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to providing a safe working environment and protecting employees from occupational hazards.	"Health and Safety"	49-50
KPI B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	"Health and Safety"	50
KPI B2.2	Lost days due to work injury.	"Health and Safety"	50
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	"Health and Safety"	49
B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	"Development and Training"	50
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	"Development and Training"	50
KPI B3.2	The average training hours completed per employee by gender and employee category.	"Development and Training"	50
B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to preventing child and forced labour.	"Labour Standards"	51
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	"Labour Standards"	51
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	"Labour Standards"	51
Operating Practices			
B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	"Supply Chain Management"	51-52
KPI B5.1	Number of suppliers by geographical region.	"Supply Chain Management"	52
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	"Supply Chain Management"	51

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Subject areas, aspects, general disclosures and KPIs		Section	Page
KPI B5.3	Description of practices used to identify environmental and social risks along the supply chain, how they are implemented and monitored.	"Supply Chain Management"	51
KPI B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, how they are implemented and monitored.	"Supply Chain Management"	51
B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	"Product Responsibility"	52-53
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	"Product Responsibility"	52
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	"Product Responsibility"	52
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	"Product Responsibility"	53
KPI B6.4	Description of quality assurance process and recall procedures.	"Product Responsibility"	52
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	"Product Responsibility"	53
B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer, relating to bribery, extortion, fraud and money laundering.	"Anti-Corruption"	53
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	"Anti-Corruption"	53
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	"Anti-Corruption"	53
KPI B7.3	Description of anti-corruption training provided to directors and staff.	"Anti-Corruption"	53

ENVIRONMENTAL, SOCIAL & GOVERNANCE REPORT

Subject areas, aspects, general disclosures and KPIs		Section	Page
Community			
B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	"Community Investment"	54
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	"Community Investment"	54
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	"Community Investment"	54

Notes:

1. Pursuant to Consultation Conclusions: Review of The Environmental, Social And Governance Reporting Guide and Related Listing Rules, this section is required to implement for financial year commencing on or after 1 July 2020 only.
2. Pursuant to Appendix 27 of the Listing Rules, KPIs in this section are recommended disclosures only.

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of Dalipal Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Dalipal Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 65 to 127, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants (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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (CONTINUED)**Timing of revenue recognition**

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(r).

The Key Audit Matter	How the matter was addressed in our audit
<p>The Group's revenue is principally generated from the manufacture and sale of oil country tubular goods, other oil pipes and pipe billets.</p>	<p>Our audit procedures to assess the timing of revenue recognition included the following:</p>
<p>The Group's sales contracts with customers have a variety of terms relating to goods acceptance. Such terms may affect the timing of the recognition of revenue with these customers. Management evaluates the terms of each contract in determining the appropriate timing of revenue recognition.</p>	<ul style="list-style-type: none"> • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of the Group's key internal controls in relation to revenue recognition; • Inspecting key customers' sales contracts to identify terms and conditions relating to goods acceptance and assessing the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;
<p>We identified the timing of revenue recognition as a key audit matter because revenue is a key performance indicator of the Group which increases the risk that revenue may be manipulated to meet financial expectations or targets.</p>	<ul style="list-style-type: none"> • Comparing, on a sample basis, specific sales transactions recorded before and after the financial year end date with underlying documentation, which included goods acceptance notes, to assess whether the relevant revenue had been recognised in accordance with the terms of the sales contracts and in the appropriate financial year; • Inspecting underlying documentation for manual journal entries relating to revenue which were recorded during the year and which met specific risk-based criteria; and • Confirming, on a sample basis, the value of sales transactions for the year ended 31 December 2020 directly with customers and inspecting underlying documentation relating to the reconciliation of differences between the transaction amounts confirmed by customers and the Group's accounting records to assess whether the related revenue had been recognised in the appropriate financial year; for unreturned confirmations, performing alternative procedures by comparing details with underlying documentations.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (CONTINUED)**Assessment of the Group's ability to continue as a going concern**

Refer to Note 2(b) to the consolidated financial statements.

The Key Audit Matter**How the matter was addressed in our audit**

The Group incurred a loss of RMB117,904,000 for the year ended 31 December 2020. As at 31 December 2020, the Group had net current liabilities of RMB220,224,000, including bank and other borrowings of RMB1,479,052,000 which were due for repayment and renewal within the next twelve months from the end of the reporting period. Note 2(b) to the consolidated financial statements explains how the directors of the Company have formed a judgement that the going concern basis is appropriate in preparing the consolidated financial statements of the Group.

The directors of the Company made their assessment of the Group's ability to continue as a going concern by preparing a cash flow forecast in which certain key assumptions were applied. These key assumptions included forecasts of sales volumes, average selling prices, raw material costs and necessary capital expenditure for oil country tubular goods, other oil pipes and pipe billets and the availability of bank loans and other financing facilities. Based on the assessment, the directors concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

We identified going concern as a key audit matter because a significant degree of management judgement is involved in making this assessment and in forecasting the future cash flows of the Group which are inherently uncertain.

Our audit procedures in respect of the directors' assessment of the Group's ability to continue as a going concern included the following:

- assessing and challenging the key assumptions used by management in the cash flow forecast, including forecast sales volumes, average selling prices, raw materials costs and necessary capital expenditure for oil country tubular goods, other oil pipes and pipe billets based on historical production information together with market and other externally available information;
- comparing the cash flow forecast prepared in the prior year with the current year's performance of the Group to assess how accurate the prior year's cash flow forecast was and making enquiries of management as to the reasons for any significant variations identified;
- assessing the availability of bank loan and other financing facilities during the forecast period by inspecting relevant underlying documentations and obtaining correspondences with banks, interviewing with relevant banks in relation to bank loan renewal and other financing facilities, evaluating whether the financing facilities were sufficient to meet the Group's needs in the context of the cash flow forecast, taking into the account any breach of loan covenants which may trigger early repayment of loans;
- obtaining from management sensitivity analyses of the key assumptions (including forecast sales volumes, average selling prices, raw materials costs and necessary capital expenditure for production) adopted in the cash flow forecast and assessing the impact on the conclusions of the going concern assessment; and
- assessing the related disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements*(CONTINUED)*

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Auditor's responsibilities for the audit of the consolidated financial statements*(CONTINUED)*

We communicate with the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters 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 this independent auditor's report is Chu Man Wai.

KPMG*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the year ended 31 December 2020
(Expressed in Renminbi ("RMB"))

	Note	2020 RMB'000	2019 RMB'000
Revenue	4	2,259,402	2,825,969
Cost of sales		(2,155,002)	(2,291,647)
Gross profit	4(b)	104,400	534,322
Other income	5	16,733	134,514
Selling expenses		(51,580)	(61,584)
Administrative expenses		(116,639)	(127,465)
(Loss)/profit from operations		(47,086)	479,787
Finance costs	6(a)	(97,044)	(70,056)
(Loss)/profit before taxation	6	(144,130)	409,731
Income tax	7	26,226	(72,321)
(Loss)/profit for the year		(117,904)	337,410
Other comprehensive income for the year (after tax): <i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation into presentation currency		(985)	867
Total comprehensive income for the year		(118,889)	338,277
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company		(116,417)	333,729
Non-controlling interests		(1,487)	3,681
(Loss)/profit for the year		(117,904)	337,410
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		(117,402)	334,596
Non-controlling interests		(1,487)	3,681
Total comprehensive income for the year		(118,889)	338,277
(Loss)/earnings per share	10		
Basic and diluted (RMB)		(0.08)	0.27

The notes on pages 71 to 127 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the year are set out in Note 23(d).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	11	1,922,593	1,972,521
Deferred tax assets	21(b)	19,254	4,553
		1,941,847	1,977,074
Current assets			
Inventories	13	494,951	440,631
Trade and bills receivables	14	752,695	914,630
Prepayments, deposits and other receivables	15	83,017	98,725
Cash at bank and on hand	16	416,173	810,620
		1,746,836	2,264,606
Current liabilities			
Trade and bills payables	17	319,246	280,744
Other payables and accruals	18	159,335	172,139
Interest-bearing borrowings	19(a)	1,479,052	1,361,807
Lease liabilities		151	934
Current taxation	21(a)	9,276	28,020
		1,967,060	1,843,644
Net current (liabilities)/assets		(220,224)	420,962
Total assets less current liabilities		1,721,623	2,398,036
Non-current liabilities			
Interest-bearing borrowings	19(b)	443,200	840,900
Lease liabilities		–	161
Deferred tax liabilities	21(b)	–	13,437
Deferred income	22	15,842	17,559
		459,042	872,057
NET ASSETS		1,262,581	1,525,979

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2020
(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
CAPITAL AND RESERVES	23		
Share capital		134,263	134,263
Reserves		1,128,318	1,380,638
Total equity attributable to equity shareholders of the Company		1,262,581	1,514,901
Non-controlling interests		–	11,078
TOTAL EQUITY		1,262,581	1,525,979

Approved and authorised for issue by the board of directors on 26 March 2021.

Meng Fanyong
Chairman

Gan Shuya
Director

The notes on pages 71 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Expressed in RMB)

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Other reserves	Exchange reserve	Retained profits	Total		
	RMB'000 Note 23(b)	RMB'000 Note 23(c)(i)	RMB'000 Note 23(c)(ii)	RMB'000 Note 23(c)(iii)	RMB'000 Note 23(c)(iv)	RMB'000	RMB'000		
Balance at 1 January 2019	85	-	-	487,763	-	267,297	755,145	7,397	762,542
Changes in equity for 2019:									
Profit for the year	-	-	-	-	-	333,729	333,729	3,681	337,410
Other comprehensive income	-	-	-	-	867	-	867	-	867
Total comprehensive income	-	-	-	-	867	333,729	334,596	3,681	338,277
Capitalisation issue (Note 23(b))	107,322	(107,322)	-	-	-	-	-	-	-
Issuance of shares (Note 23(b))	26,856	402,359	-	(5,843)	-	-	423,372	-	423,372
Equity settled share-based transactions (Note 20)	-	-	1,788	-	-	-	1,788	-	1,788
Appropriation to reserves	-	-	-	14,737	-	(14,737)	-	-	-
	134,178	295,037	1,788	8,894	-	(14,737)	425,160	-	425,160
Balance at 31 December 2019	134,263	295,037	1,788	496,657	867	586,289	1,514,901	11,078	1,525,979
Balance at 1 January 2020	134,263	295,037	1,788	496,657	867	586,289	1,514,901	11,078	1,525,979
Changes in equity for 2020:									
Loss for the year	-	-	-	-	-	(116,417)	(116,417)	(1,487)	(117,904)
Other comprehensive income	-	-	-	-	(985)	-	(985)	-	(985)
Total comprehensive income	-	-	-	-	(985)	(116,417)	(117,402)	(1,487)	(118,889)
Equity settled share-based transactions (Note 20)	-	-	4,078	-	-	-	4,078	-	4,078
Distributions declared by a subsidiary of the Group	-	-	-	-	-	-	-	(1,248)	(1,248)
Dividends approved in respect of the previous year	-	(135,907)	-	-	-	-	(135,907)	-	(135,907)
Acquisition of non-controlling interests (Note 12(iv))	-	-	-	(3,089)	-	-	(3,089)	(8,343)	(11,432)
Appropriation to reserves	-	-	-	40,540	-	(40,540)	-	-	-
	-	(135,907)	4,078	37,451	-	(40,540)	(134,918)	(9,591)	(144,509)
Balance at 31 December 2020	134,263	159,130	5,866	534,108	(118)	429,332	1,262,581	-	1,262,581

The notes on pages 71 to 127 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENTFor the year ended 31 December 2020
(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
(Loss)/profit before taxation		(144,130)	409,731
Adjustments for:			
Depreciation expenses	6(c)	119,883	83,738
Finance costs	6(a)	97,044	70,056
Interest income	5	(5,141)	(2,001)
Net gain on relocation of production facilities	5	–	(125,501)
Net loss on disposal of other property, plant and equipment	5	2,123	1,676
Amortisation of deferred income	22	(1,717)	(1,197)
Equity-settled share-based payments	6(b)	4,078	1,788
Changes in working capital:			
Increase in inventories		(54,320)	(20,961)
Decrease/(increase) in trade and bills receivables		161,935	(280,985)
Decrease/(increase) in prepayments, deposits and other receivables		18,211	(15,524)
Increase/(decrease) in trade and bills payables		38,502	(115,054)
Decrease in other payables and accruals		25,887	19,651
Net decrease in restricted deposits	16(a)	134,600	22,036
Cash generated from operations		396,955	47,453
Income tax paid	21(a)	(22,117)	(34,243)
Income tax refunded		1,461	–
Net cash generated from operating activities		376,299	13,210
Cash flows from investing activities			
Payments for acquisitions of property, plant and equipment		(106,118)	(359,445)
Proceeds from disposal of property, plant and equipment		41	150,046
Interest received		5,141	2,001
Net cash used in investing activities		(100,936)	(207,398)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2020

(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from issuance of shares	23(b)(ii)	–	16,792
Proceeds from issuance of shares by initial public offering, net of share issuance expenses	23(b)(iv)	–	406,580
Proceeds from bank and other interest-bearing borrowings	16(b)	1,220,022	2,382,937
Repayment of bank and other interest-bearing borrowings	16(b)	(1,500,477)	(1,835,240)
Capital element of lease rentals paid	16(b)	(944)	(669)
Interest element of lease rentals paid	16(b)	(36)	(59)
Dividends paid		(135,907)	–
Distributions paid		–	(231,761)
Distributions paid by a subsidiary of the Group		(1,248)	–
Acquisition of non-controlling interests	12(iv)	(11,432)	–
Interest paid	16(b)	(103,596)	(103,509)
Net cash (used in)/generated from financing activities		(533,618)	635,071
Net (decrease)/increase in cash and cash equivalents		(258,255)	440,883
Effect of exchange rate changes on cash and cash equivalents		(1,592)	566
Cash and cash equivalents at the beginning of the year	16(a)	572,067	130,618
Cash and cash equivalents at the end of the year	16(a)	312,220	572,067

The notes on pages 71 to 127 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 Corporate information

Dalipal Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 8 November 2019 (the “Listing Date”). The Company and its subsidiaries (together, the “Group”) are principally engaged in the development, manufacture and sale of oil country tubular goods (“OCTG”), other oil pipes and pipe billets.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The Group incurred a loss of RMB117,904,000 for the year ended 31 December 2020. As at 31 December 2020, the Group had net current liabilities of RMB220,224,000, including bank and other borrowings of RMB1,479,052,000 which were due for repayment and renewal within the next twelve months from the end of the reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(b) Basis of preparation of the financial statements** (continued)

The directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position, including:

- (i) The Group has maintained its long-term strong business relationship with its major banks to get their continuing support. The Group is actively discussing with its banks for renewal of bank borrowings, which will be due in the year ending 31 December 2021. From 1 January 2021 to the date of authorisation of the financial statements, the Group has renewed bank borrowings of RMB217,080,000 and obtained new bank borrowings of RMB118,000,000. The directors are of the opinion that the Group will be able to either renew or obtain new banking facilities to supplement liquidity of the Group at adequate level during the year ending 31 December 2021; and
- (ii) The Group has been implementing various strategies to develop new market while maintaining strong relationship with current principal customers to generate additional operating cash inflows and putting extra efforts on the collection of trade debtors to improve the Group's operating cash flows.

Based on a cash flow forecast of the Group for the next twelve months ending 31 December 2021 prepared by the management, which has taken into account that most of the Group's bank borrowings will be refinanced, the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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 estimate 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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(c) Changes in accounting policies**

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period to the Group:

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IFRS 1 and IFRS 8, *Definition of Material*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, *COVID-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company’s statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)).

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight-line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	20–40 years
Machinery and equipment	3–15 years
Vehicles and other equipment	3–8 years
Right-of-use assets	Over the term of lease

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(f) Research and development expenditures**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, 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. Control is conveyed where the Group has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(g) Leased assets** (continued)**(i) As a lessee** (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(e) and 2(h)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the date of the modification. The only exceptions are any rent concessions which arose as direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of IFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of IFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(r).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(h) Credit losses and impairment of assets****(i) Credit losses from financial instruments**

The Group recognises a loss allowance for expected credit losses (“ECLs”) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls of fixed-rate financial assets, trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(h) Credit losses and impairment of assets** (continued)**(i) Credit losses from financial instruments** (continued)**Significant increases in credit risk**

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). 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 credit risk has increased significantly since initial recognition:

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(h) Credit losses and impairment of assets** (continued)**(i) Credit losses from financial instruments** (continued)**Basis of calculation of interest income**

Interest income recognised in accordance with Note 2(r) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. 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 asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investment in a subsidiary in the Company's statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(h) Credit losses and impairment of assets** (continued)**(ii) Impairment of other assets** (continued)

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(j) Contract assets and contract liabilities**

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(h) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(r)).

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(m) Trade and other payables**

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expenses is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits**(i) Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the share options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the share options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the share option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the share option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(p) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(p) Income tax** (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(r) Revenue and other income** (continued)

Further details of the Group's revenue and other income recognition policies are as follows:

- **Sale of goods**
Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.
- **Interest income**
Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)).
- **Government grants**
Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss on a systematic basis over the useful life of the asset.
- **Rental income from operating leases**
Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as other income in the accounting period in which they are earned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(s) Translation of foreign currencies**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (CONTINUED)**(u) Related parties** (continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group.
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Accounting judgement and estimates

Critical accounting judgement

Management has made judgement about the Group's ability to continue as a going concern and concluded that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern. Further information is set out in note 2(b).

Key sources of estimation uncertainty

Notes 20 and 24 contain information about the assumptions and their risk factors relating to fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) *Expected credit losses for receivables*

The credit losses for trade and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, which are based on the Group's past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 24(a). Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowances in future periods.

(b) *Impairment of property, plant and equipment*

If circumstances indicated that the carrying amount of property, plant and equipment may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of property, plant and equipment as described in Note 2(h). These assets are tested for impairment periodically or whenever the events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the assets and could result in additional impairment charge or reversal of impairment in future periods.

(c) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The management of the Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Revenue and segment reporting**(a) Revenue**

The Group is principally engaged in the development, manufacture and sale of OCTG, other oil pipes and pipe billets. All of the revenue of the Group is recognised at a point in time. The customers obtain control of the products when they are delivered to and have been accepted at premises determined by the customers. Acceptance notes are generated and revenue is recognised at that point in time.

Disaggregation of revenue from contracts with customers by major products is as follows:

	2020 RMB'000	2019 RMB'000
Sales of OCTG	1,060,130	1,641,353
Sales of other oil pipes	714,910	417,473
Sales of pipe billets	484,362	767,143
	2,259,402	2,825,969

Revenue from customers with whom transactions have exceeded 10% of the Group's revenue is as follows:

	2020 RMB'000	2019 RMB'000
Customer A	485,283	547,487
Customer B	245,528	*
Customer C	236,500	372,003
Customer D	*	290,341

* Transactions with these customers did not exceed 10% of the Group's revenue in the respective years.

Details of concentration of credit risk arising from the Group's customers are set out in Note 24(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Revenue and segment reporting (CONTINUED)**(b) Segment reporting**

The Group manages its businesses by products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- OCTG: this segment includes primarily the manufacture and sale of OCTG.
- Other oil pipes: this segment includes primarily the manufacture and sale of other oil pipes.
- Pipe billets: this segment includes primarily the manufacture and sale of pipe billets.

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments during normal operations. The measure used for reporting segment result is gross profit, but excluded depreciation expenses, staff costs and utilities expenses incurred during the suspension of production as a result of the COVID-19 pandemic. No inter-segment sales have occurred for the years ended 31 December 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Revenue and segment reporting (CONTINUED)**(b) Segment reporting** (continued)*(i) Segment results, assets and liabilities (continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance the years ended 31 December 2020 and 2019 is set out below.

	2020			
	OCTG RMB'000	Other oil pipes RMB'000	Pipe billets RMB'000	Total RMB'000
Revenue from external customers	1,060,130	714,910	484,362	2,259,402
Reportable segment gross profit	139,351	9,127	17,874	166,352
	2019			
	OCTG RMB'000	Other oil pipes RMB'000	Pipe billets RMB'000	Total RMB'000
Revenue from external customers	1,641,353	417,473	767,143	2,825,969
Reportable segment gross profit	406,771	73,559	53,992	534,322

(ii) Reconciliation of reportable segment gross profit

	2020 RMB'000	2019 RMB'000
Reportable segment gross profit (Note 4(b)(i))	166,352	534,322
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the COVID-19 pandemic	(61,952)	–
Reportable segment gross profit derived from the Group's external customers	104,400	534,322

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4 Revenue and segment reporting (CONTINUED)**(b) Segment reporting** (continued)**(iii) Geographic information**

The following tables set out information about the geographical location of the Group's revenue from external customers. The geographical information about the revenue prepared by location at which the goods were delivered is as follows:

	2020 RMB'000	2019 RMB'000
Mainland China	2,070,767	2,632,105
Overseas:		
Turkmenistan	48,302	12,029
Egypt	48,266	1,256
Gabon	35,788	–
Oman	19,183	144,931
Others	37,096	35,648
	188,635	193,864
	2,259,402	2,825,969

All of the Group's non-current assets are located in the PRC. Accordingly, no segment analysis based on geographical location of the assets is provided.

5 Other income

	2020 RMB'000	2019 RMB'000
Government grants (including amortisation of deferred income, see Note 22)	18,154	5,678
Interest income	5,141	2,001
Net gain on relocation of production facilities	–	125,501
Net loss on disposal of other property, plant and equipment	(2,123)	(1,676)
Net foreign exchange (loss)/gain	(3,244)	1,042
Others	(1,195)	1,968
	16,733	134,514

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2020 RMB'000	2019 RMB'000
Interest expenses on borrowings	90,060	99,495
Interest expenses on lease liabilities	36	59
Others	6,948	5,904
	97,044	105,458
Less: interest expenses capitalised into construction in progress*	–	(35,402)
	97,044	70,056

* No borrowing cost has been capitalised in 2020 (The borrowing costs have been capitalised at a rate of 5.73% per annum in 2019).

(b) Staff costs#

	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	153,923	155,126
Contributions to defined contribution retirement plan	7,604	10,973
Equity-settled share-based payment expenses (Note 20)	4,078	1,788
	165,605	167,887

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong SAR) participate in a defined contribution retirement benefit plan managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC (excluding Hong Kong SAR), from the above mentioned retirement plan at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HK\$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 (Loss)/profit before taxation (CONTINUED)**(c) Other items**

	2020 RMB'000	2019 RMB'000
Depreciation expenses# (Note 11)		
– owned property, plant and equipment	113,228	77,005
– right-of-use assets	6,655	6,733
Impairment losses (reversed)/recognised on trade receivables (Note 14(b))	(2,995)	5,322
Impairment losses on prepayments and other receivables (Note 15)	2,689	25
Auditors' remuneration		
– audit services	2,242	2,510
– non-audit services	800	–
– services in connection with the initial listing of the Company's shares	–	3,647
Research and development costs	24,983	23,028
Cost of inventories# (Note 13(b))	2,093,050	2,291,647

Cost of inventories include RMB150,398,000 (2019: RMB164,793,000) relating to staff costs and depreciation expenses, which amounts are also included in the respective amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 Income tax in the consolidated statement of profit or loss and other comprehensive income**(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

	2020 RMB'000	2019 RMB'000
Current taxation (Note 21(a)):		
– Provision for the year	7,182	64,801
– Over-provision in respect of prior years	(5,270)	(1,526)
	1,912	63,275
Deferred taxation (Note 21(b)):		
– Origination and reversal of temporary differences	(21,259)	(4,391)
– (Change in applicable withholding tax rate)/withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note 7(b)(v))	(6,879)	13,437
	(28,138)	9,046
	(26,226)	72,321

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Income tax in the consolidated statement of profit or loss and other comprehensive income (CONTINUED)**(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:**

	2020 RMB'000	2019 RMB'000
(Loss)/profit before taxation	(144,130)	409,731
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	(29,800)	104,761
Tax effect of non-deductible expenses	951	2,567
Tax effect on preferential tax rate (Note (iv))	16,272	(45,418)
Tax effect on bonus deduction of research and development costs	(1,500)	(1,500)
Over-provision in respect of prior years	(5,270)	(1,526)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (v))	(6,879)	13,437
Actual tax expense	(26,226)	72,321

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and British Virgin Islands (the "BVI") are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and the Hong Kong incorporated subsidiaries of the Group are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime from the year of assessment 2018/19 onwards. The profits tax rate for the first HK\$2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong SAR) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2020 (2019: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria. Dalipal Pipe was qualified as a HNTE and is entitled to the preferential tax rate of 15% for the three calendar years ended 31 December 2018, 2019 and 2020.
- (v) Pursuant to the China-Hong Kong Double Tax Arrangement, one of the Group's subsidiaries, Dalipal Hong Kong Company Limited, has obtained approval from the relevant tax authorities and is eligible for preferential PRC Withholding Tax rate of 5% instead of 10% for dividends received from the PRC subsidiaries of the Group. As a result of the change in tax rate, the related deferred tax liabilities balance was adjusted accordingly.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits-in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (Note 20) RMB'000	2020 Total RMB'000
Executive directors							
Mr. Meng Fanyong (<i>Chairman</i>)	-	619	-	24	643	-	643
Mr. Zhang Hongyao (Note (ii))	-	1,819	-	14	1,833	535	2,368
Ms. Xu Wenhong	-	633	-	13	646	-	646
Mr. Meng Yuxiang	-	588	-	37	625	-	625
Ms. Gan Shuya	-	634	-	24	658	1,162	1,820
Mr. Yin Zhixiang	-	666	-	13	679	-	679
Independent non-executive directors							
Mr. Guo Kaiqi	253	-	-	-	253	-	253
Mr. Wong Jovi Chi Wing	253	-	-	-	253	-	253
Mr. Cheng Haitao	253	-	-	-	253	-	253
	759	4,959	-	125	5,843	1,697	7,540

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 Directors' emoluments (CONTINUED)

	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments (Note 20)	2019 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors (Note (i))							
Mr. Meng Fanyong (<i>Chairman</i>)	-	843	-	16	859	-	859
Ms. Xu Wenhong	-	501	-	12	513	-	513
Mr. Meng Yuxiang	-	444	-	33	477	-	477
Ms. Gan Shuya	-	390	-	16	406	510	916
Mr. Yin Zhixiang	-	626	-	2	628	-	628
Non-executive director (Note (ii))							
Mr. Zhang Hongyao	-	-	-	-	-	473	473
Independent non-executive directors (Note (iii))							
Mr. Cheng Haitao	45	-	-	-	45	-	45
Mr. Guo Kaiqi	45	-	-	-	45	-	45
Mr. Wong Jovi Chi Wing	45	-	-	-	45	-	45
	135	2,804	-	79	3,018	983	4,001

Notes:

- (i) On 27 February 2019, Mr. Meng Fanyong, Ms. Xu Wenhong, Mr. Meng Yuxiang, Ms. Gan Shuya, and Mr. Yin Zhixiang were redesignated/appointed as executive directors of the Company.
- (ii) Mr. Zhang Hongyao was appointed as a director of the Company on 27 February 2019 and was redesignated as a non-executive director of the Company on 19 June 2019.
- Mr. Zhang Hongyao was redesignated from a non-executive director to an executive director of the Company with effect from 1 January 2020.
- (iii) On 19 June 2019, Mr. Cheng Haitao, Mr. Guo Kaiqi and Mr. Wong Jovi Chi Wing were appointed as independent non-executive directors of the Company.

No emoluments were paid by the Group to the directors 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 waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments three (2019: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other two (2019: three) individuals are as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other emoluments	1,593	2,451
Share-based payments (Note 20)	2,381	805
Retirement scheme contributions	19	87
	3,993	3,343

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following bands:

	2020 Number of individuals	2019 Number of individuals
HK\$Nil to HK\$1,000,000	–	1
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	2	–
	2	3

No emoluments were paid by the Group to the above individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10 (Loss)/earnings per share**(a) Basic (loss)/earnings per share**

The basic loss per share for the year ended 31 December 2020 is calculated based on the loss attributable to equity shareholders of the Company of RMB116,417,000 and the weighted average of 1,500,000,000 ordinary shares in issue.

The basic earnings per share for the year ended 31 December 2019 is calculated based on the profit attributable to equity shareholders of the Company of RMB333,729,000 and the weighted average of 1,244,384,000 ordinary shares, comprising:

- (i) 970,000 ordinary shares in issue at 1 January 2019;
- (ii) 30,000 shares issued to an investor on 9 January 2019 as a result of the Group's reorganisation, as if these ordinary shares were outstanding throughout the year ended 31 December 2019;
- (iii) 1,199,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering, as if these ordinary shares were outstanding throughout the year ended 31 December 2019; and
- (iv) 300,000,000 ordinary shares issued on the Listing Date by initial public offering.

The calculation of the weighted average number of ordinary shares is as follows:

	2020	2019
Issued ordinary shares at 1 January	1,500,000,000	970,000
Issuance of shares on 9 January 2019 (Note 23(b)(ii))	–	30,000
Effect of capitalisation issue (Note 23(b)(iii))	–	1,199,000,000
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange (Note 23(b)(iv))	–	44,384,000
Weighted average number of shares in issue	1,500,000,000	1,244,384,000

(b) Diluted (loss)/earnings per share

The diluted loss per share for the year ended 31 December 2020 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2019 is based on the profit attributable to equity shareholders of the Company of RMB333,729,000 and the weighted average number of ordinary shares (diluted) of 1,246,189,337.

The weighted average number of ordinary shares (diluted) for the year ended 31 December 2019 is calculated as follows:

	2019
Weighted average number of ordinary shares at 31 December	1,244,384,000
Effect of deemed issue of shares under the Company's share option scheme (Note 20)	1,805,337
Weighted average number of ordinary shares (diluted) at 31 December	1,246,189,337

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Property, plant and equipment**(a) Reconciliation of carrying amount**

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Vehicles and other equipment RMB'000	Construction in progress RMB'000	Right-of-use assets RMB'000	Total RMB'000
Cost:						
At 1 January 2019	671,641	695,669	16,950	484,448	278,153	2,146,861
Additions	791	4,460	6,236	507,060	1,764	520,311
Transfer in/(out)	288,273	583,453	683	(872,409)	–	–
Disposals	(28,529)	(11,066)	(838)	–	(15,605)	(56,038)
At 31 December 2019	932,176	1,272,516	23,031	119,099	264,312	2,611,134
Additions	–	2,455	1,844	67,820	–	72,119
Transfer in/(out)	44,464	49,955	109	(94,528)	–	–
Disposals	(18)	(22,901)	(1,428)	–	–	(24,347)
At 31 December 2020	976,622	1,302,025	23,556	92,391	264,312	2,658,906
Accumulated depreciation:						
At 1 January 2019	(166,583)	(368,969)	(10,206)	–	(40,053)	(585,811)
Charge for the year	(25,916)	(48,958)	(2,131)	–	(6,733)	(83,738)
Written back on disposals	15,854	9,242	726	–	5,114	30,936
At 31 December 2019	(176,645)	(408,685)	(11,611)	–	(41,672)	(638,613)
Charge for the year	(30,003)	(80,886)	(2,339)	–	(6,655)	(119,883)
Written back on disposals	4	20,819	1,360	–	–	22,183
At 31 December 2020	(206,644)	(468,752)	(12,590)	–	(48,327)	(736,313)
Carrying amount:						
At 31 December 2020	769,978	833,273	10,966	92,391	215,985	1,922,593
At 31 December 2019	755,531	863,831	11,420	119,099	222,640	1,972,521

Notes:

- (i) The Group's property, plant and equipment are located in the PRC. The land use rights included in "Right-of-use assets" represent premiums paid by the Group for land situated in the PRC. The lease terms of these land use rights ranged from 37 to 50 years.
- (ii) At 31 December 2020, property, plant and equipment of the Group with carrying amounts of RMB1,179,018,000 (2019: RMB1,043,415,000) have been pledged as collateral for the Group's interest-bearing borrowings (see Note 19).
- (iii) At 31 December 2020, the Group is in the process of applying for registration of the ownership certificates for certain properties with an aggregate carrying amount of RMB12,833,000 (2019: RMB13,314,000). The directors of the Company are of the opinion that the Group is entitled to lawfully occupy and use these properties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Property, plant and equipment (CONTINUED)**(b) Right-of-use assets**

The analysis of the net book values of right-of-use assets by class of underlying assets is as follows:

	2020 RMB'000	2019 RMB'000
Properties leased for own use, carried at depreciated cost:		
– Land use rights	215,848	221,611
– Office premises	137	1,029
	215,985	222,640

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying assets (Note 6(c)):		
– Land use rights	5,763	5,998
– Office premises	892	735
	6,655	6,733

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Note 16(c), respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Company name	Place and date of establishment/ incorporation	Particulars of registered/ issued and paid-up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by subsidiaries	
Dalipal Pipe 達力普石油專用管有限公司 (Notes (i) and (iii))	The PRC 18 September 1998	RMB185,000,000	100%	–	100%	Design, manufacture and sale of OCTG, other oil pipes and pipe billets
Agile Rise Global Limited	The BVI 26 April 2018	United States Dollar ("US\$") 1, 1 share of US\$1 each	100%	100%	–	Investment holding
Dalipal Hong Kong Company Limited	Hong Kong 19 September 2018	1 share	100%	–	100%	Investment holding
Beauty Bright Group Limited ("Beauty Bright")	The BVI 19 September 2018	US\$1, 1 share of US\$1 each	100%	100%	–	Investment holding
Complete Glory Group Limited	Hong Kong 19 October 2018	1 share	100%	–	100%	Investment holding
Dalipal (Cangzhou) Industrial Company Limited ("Dalipal Industrial") 達力普(滄州)實業有限公司 (Notes (ii) and (iii))	The PRC 14 November 2018	RMB200,000,000	100%	–	100%	Investment holding
Xuanxiang (Cangzhou) Petroleum Pipe Co., Ltd. ("Xuanxiang Pipe") 軒翔(滄州)石油管有限公司 (Notes (i), (iii) and (iv))	The PRC 14 November 2018	RMB200,000,000	100%	–	100%	Investment holding
Shengjie (Cangzhou) Oil Pipe Company Limited ("Shengjie Pipe") 盛捷(滄州)石油管有限公司 (Notes (i), (iii) and (iv))	The PRC 16 November 2018	RMB10,101,000	100%	–	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Investments in subsidiaries (CONTINUED)

Notes:

- (i) These entities were registered as limited liability companies under the laws and regulations in the PRC.
- (ii) This entity was registered as a wholly foreign-owned enterprise under the laws and regulations in the PRC.
- (iii) The English translation of the names are for identification only. The official names of these entities are in Chinese.
- (iv) On 14 September 2020, Shengjie Pipe, Dalipal Industrial and Dalipal Group Co., Ltd. ("Dalipal Group") entered into the Equity Transfer Agreement, pursuant to which Dalipal Industrial purchased 1% equity interest of Shengjie Pipe which was held by Dalipal Group at the consideration of approximately RMB11,432,000. Upon the transfer of the equity interest, Shengjie Pipe and its subsidiary, Xuanxiang Pipe, became wholly-owned subsidiaries of the Group.

13 Inventories**(a) Inventories in the consolidated statement of financial position comprise:**

	2020 RMB'000	2019 RMB'000
Raw materials	145,214	114,501
Work in progress	138,586	145,649
Finished goods	221,474	181,314
	505,274	441,464
Less: write-down of inventories	(10,323)	(833)
	494,951	440,631

(b) The analysis of the amount of inventories recognised as expense and included in the consolidated statement of profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	2,083,560	2,291,908
Recognition/(reversal) of write-down of inventories	9,490	(261)
	2,093,050	2,291,647

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Trade and bills receivables

	2020 RMB'000	2019 RMB'000
Trade receivables	261,258	453,422
Less: loss allowance (Note 14(b))	(5,838)	(8,833)
	255,420	444,589
Bills receivables	497,275	470,041
	752,695	914,630

All of the trade and bills receivables, net of loss allowance, are expected to be recovered within one year.

The balance of bills receivables represents bank and trade acceptance notes received from customers with maturity dates of less than one year.

(a) Ageing analysis

The ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, of the Group is as follows:

	2020 RMB'000	2019 RMB'000
Less than 1 month	143,007	231,615
1 to 3 months	88,151	178,652
3 to 6 months	16,632	34,322
Over 6 months	7,630	–
	255,420	444,589

The Group's customers are mainly oil and gas extractive companies in the PRC. Further details on the Group's credit policy are set out in Note 24(a).

(b) Impairment of trade and bills receivables

The movements in the loss allowance account are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	8,833	3,511
Credit losses (reversed)/recognised (Note 6(c))	(2,995)	5,322
At 31 December	5,838	8,833

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Trade and bills receivables (CONTINUED)**(c) Transfer of financial assets**

The Group has discounted certain of the bank acceptance notes it received from customers at banks and endorsed certain of the bank acceptance notes it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are reputable banks in China and of good credit quality therefore non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 31 December 2020, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB131,303,000 (2019: RMB203,620,000).

Bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totaling RMB47,358,000 (2019: RMB30,860,000) at 31 December 2020, which were not derecognised as the Group remains to have significant exposure to the credit risk of these bills receivables. The aggregate carrying amount of the associated trade payables amounted to RMB47,358,000 (2019: RMB30,860,000) at 31 December 2020.

- (d) At 31 December 2020, trade and bills receivables with an aggregate carrying amount of RMB180,476,000 (2019: RMB233,642,000) have been pledged for the Group's interest-bearing borrowings (see Note 19).

15 Prepayments, deposits and other receivables

	2020 RMB'000	2019 RMB'000
Prepayments for purchase of raw materials	9,733	14,661
Prepayments for transportation and other miscellaneous expenses	9,705	11,177
VAT recoverable	9,983	14,767
Receivable in connection with compensation for relocation of production facilities from local government	55,554	55,554
Others	1,025	2,860
	86,000	99,019
Less: loss allowance	(2,983)	(294)
	83,017	98,725

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Prepayments, deposits and other receivables (CONTINUED)

The movements in the loss allowance account are as follows:

	2020 RMB'000	2019 RMB'000
At 1 January	294	269
Recognition of credit losses (Note 6(c))	2,689	25
At 31 December	2,983	294

16 Cash at bank and on hand and other cash flow information

(a) Cash at bank and on hand in the consolidated statement of financial position comprise:

	2020 RMB'000	2019 RMB'000
Cash at bank	416,112	720,916
Time-deposits with original maturity of less than three months	–	89,500
Cash on hand	61	204
Cash and cash equivalents included in the consolidated statement of financial position	416,173	810,620
Less: restricted deposits (Note (i))	(103,953)	(238,553)
Cash and cash equivalents included in the consolidated cash flow statement	312,220	572,067

The Group's operations in the PRC (excluding Hong Kong SAR) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong SAR) is subject to the exchange restrictions imposed by the PRC government.

Note:

- (i) Restricted deposits mainly represent deposits placed at banks as collaterals for interest-bearing bank borrowings of (see Note 19) and bank acceptance notes issued by the Group (see Note 17).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Cash at bank and on hand and other cash flow information (CONTINUED)**(b) Reconciliation of liabilities arising from financing activities**

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

	Interest-bearing borrowings RMB'000 (Note 19)	Interest payables RMB'000 (Note 18)	Distributions/dividends payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2019	1,655,010	8,215	231,761	–	1,894,986
Changes from financing cash flows:					
Proceeds from interest-bearing bank and other borrowings	2,382,937	–	–	–	2,382,937
Repayment of interest-bearing bank and other borrowings	(1,835,240)	–	–	–	(1,835,240)
Capital element of lease rentals paid	–	–	–	(669)	(669)
Interest element of lease rentals paid	–	–	–	(59)	(59)
Distributions paid	–	–	(231,761)	–	(231,761)
Interest paid	–	(103,509)	–	–	(103,509)
Total changes from financing cash flows	547,697	(103,509)	(231,761)	(728)	211,699
Other changes:					
New leases entered into during the year (Note 11(a))	–	–	–	1,764	1,764
Interest expenses (Note 6(a))	–	69,997	–	59	70,056
Capitalised borrowing costs (Note 6(a))	–	35,402	–	–	35,402
Total other changes	–	105,399	–	1,823	107,222
At 31 December 2019	2,202,707	10,105	–	1,095	2,213,907

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 Cash at bank and on hand and other cash flow information (CONTINUED)**(b) Reconciliation of liabilities arising from financing activities** (continued)

	Interest-bearing borrowings RMB'000 (Note 19)	Interest payables RMB'000 (Note 18)	Distributions/dividends payable RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2020	2,202,707	10,105	-	1,095	2,213,907
Changes from financing cash flows:					
Proceeds from interest-bearing bank and other borrowings	1,220,022	-	-	-	1,220,022
Repayment of interest-bearing bank and other borrowings	(1,500,477)	-	-	-	(1,500,477)
Capital element of lease rentals paid	-	-	-	(944)	(944)
Interest element of lease rentals paid	-	-	-	(36)	(36)
Dividends paid	-	-	(135,907)	-	(135,907)
Interest paid	-	(103,596)	-	-	(103,596)
Total changes from financing cash flows	(280,455)	(103,596)	(135,907)	(980)	(520,938)
Other changes:					
Dividends declared (Note 23(d))	-	-	135,907	-	135,907
Interest expenses (Note 6(a))	-	97,008	-	36	97,044
Total other changes	-	97,008	135,907	36	232,951
At 31 December 2020	1,922,252	3,517	-	151	1,925,920

(c) Total cash outflow for leases

Amounts included in the consolidated cash flow statement for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within financing cash flows – lease rentals paid	980	728

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Trade and bills payables

	2020 RMB'000	2019 RMB'000
Trade payables	288,797	259,358
Bills payables	30,449	21,386
	319,246	280,744

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

The ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	2020 RMB'000	2019 RMB'000
Less than 1 month	239,028	212,193
1 to 3 months	52,553	21,612
3 to 6 months	18,440	13,611
Over 6 months	9,225	33,328
	319,246	280,744

18 Other payables and accruals

	2020 RMB'000	2019 RMB'000
Payables for construction of property, plant and equipment	72,007	103,507
Payables for other taxes	2,472	2,424
Payables for staff related costs	3,199	1,611
Interest payables	3,517	10,105
Payables for transportation and utilities expenses	10,014	12,831
Payables for costs incurred in connection with the listing of the Company's shares	–	1,140
Others	4,051	4,852
Financial liabilities measured at amortised cost	95,260	136,470
Receipts in advance	64,075	35,669
	159,335	172,139

All of the other payables and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Interest-bearing borrowings

(a) The Group's short-term borrowings comprise:

	2020 RMB'000	2019 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment	304,680	243,680
– Secured by the Group's trade and bills receivables and/or restricted deposits	182,300	530,170
– Guaranteed by a subsidiary of the Group	299,310	258,870
– Unguaranteed and unsecured	247,762	173,587
	1,034,052	1,206,307
Other borrowings:		
– Unguaranteed and unsecured	–	110,000
	1,034,052	1,316,307
Add: current portion of long-term borrowings (Note 19(b))	445,000	45,500
	1,479,052	1,361,807

(b) The Group's long-term borrowings comprise:

	2020 RMB'000	2019 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment	628,400	660,900
– Secured by the Group's inventories	145,000	147,500
– Guaranteed by a subsidiary of the Group	65,500	78,000
	838,900	886,400
Borrowings from a related party (Note 26(b)):		
– Unguaranteed and unsecured	49,300	–
	888,200	886,400
Less: current portion of long-term borrowings (Note 19(a))	(445,000)	(45,500)
	443,200	840,900

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Interest-bearing borrowings (CONTINUED)**(c) The Group's long-term borrowings are repayable as follows:**

	2020 RMB'000	2019 RMB'000
Within 1 year	445,000	45,500
After 1 year but within 2 years	383,200	443,000
After 2 years but within 5 years	60,000	397,900
	888,200	886,400

(d) Certain of the Group's borrowings are secured by the following assets of the Group:

	2020 RMB'000	2019 RMB'000
Property, plant and equipment (Note 11(a)(ii))	1,179,018	1,043,415
Inventories	250,150	250,150
Trade and bills receivables (Note 14(d))	180,476	233,642
Cash at bank and on hand – restricted deposits	10,305	225,702
	1,619,949	1,752,909

- (e)** Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in the lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become repayable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 24(b). At 31 December 2020, none of the covenants relating to the interest-bearing bank borrowings had been breached. (2019: None).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Equity settled share-based transactions

On 19 June 2019, the Company has adopted pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and share option scheme (the "Share Option Scheme"). Pursuant to the Pre-IPO Share Option Scheme, the directors of the Company are authorised, at their discretion, to invite certain directors and senior management of the Group, to take up share options to subscribe for ordinary shares in the Company.

On 8 October 2019, share options to subscribe for an aggregate of 45,000,000 shares in the Company were granted to directors and senior management under the Pre-IPO Share Option Scheme which became effective upon the Listing Date. A consideration of HK\$1 had been paid by each grantee on acceptance of the share options granted. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

No share options were granted under the Share Option Scheme at 31 December 2020.

(a) The details of the share options granted are as follows:

	Number of share options	Vesting Conditions	Contractual life of share options
Share options granted to directors:			
– On 8 October 2019	27,000,000	Both performance and service period conditions apply (Note (i))	6-7 years
Share options granted to senior management:			
– On 8 October 2019	15,000,000	Both performance and service period conditions apply (Note (i))	6 years
– On 8 October 2019	3,000,000	No vesting conditions (Note (ii))	6 years
Total share options	45,000,000		

Share options may be granted under vesting conditions with reference to financial performance of the Group (the "Financial KPIs") and/or service periods (the "Service Periods"). The commencement date of the vesting conditions varies and is separately determined for each share option granted upon the grant date (the "Vesting Conditions Commencement Date").

Notes:

- (i) For these share options granted on 8 October 2019 which became effective upon the Listing Date, 20% of the total share options granted will vest at the end of each of the first to fifth year from the Vesting Conditions Commencement Date and upon the achievement of the respective year's Financial KPIs and/or Service Periods. Partial achievement on the Financial KPIs will result in the reduction in the number of share options being vested, calculated in accordance with the pre-determined formulae at the date of grant. Vested share options are exercisable within contractual life of 6 to 7 years.
- (ii) For these share options granted on 8 October 2019 which became effective upon the Listing Date, there are no vesting conditions. These share options are exercisable one year from the Listing Date and with a contractual life of 6 years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 Equity settled share-based transactions (CONTINUED)

(b) The number and weighted average exercise price of share options are as follows:

	2020		2019	
	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options
Outstanding at 1 January	HK\$0.477	45,000,000	-	-
Granted during the year	-	-	HK\$0.477	45,000,000
Forfeited during the year	HK\$0.477	(2,700,000)	-	-
Outstanding at 31 December	HK\$0.477	42,300,000	HK\$0.477	45,000,000
Exercisable at 31 December	HK\$0.477	3,300,000	-	-

The share options outstanding at 31 December 2020 had a weighted exercise price of HK\$0.477 (2019: HK\$0.477) and a weighted average remaining contractual life of 5.2 years (2019: 6.2 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on the Binomial Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Binomial Option Pricing Model.

Fair value at measurement date	HK\$0.5813–HK\$0.9146
Share price	HK\$1.53
Exercise price	HK\$0.477
Expected volatility (expressed as volatility used in the modelling under the Binomial Option Pricing Model)	31.86%–32.84%
Option life (contractual life used in the modelling under the Binomial Option Pricing Model)	6–7 years
Expected dividends	7.1%
Risk-free interest rate (based on the yield of Hong Kong government bonds)	1.50%

Share options were granted with performance and service conditions. These conditions have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options granted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Income tax in the consolidated statement of financial position**(a) Current taxation in the consolidated statement of financial position represents:**

	2020 RMB'000	2019 RMB'000
Net balance of income tax payable/(recoverable) at 1 January	28,020	(1,012)
Provision for the year	3,373	63,275
Income tax paid	(22,117)	(34,243)
Balance of income tax payable at 31 December	9,276	28,020
Represented by:		
Income tax payable	9,276	28,020

(b) Deferred tax assets and liabilities recognised*(i) Movements of each component of deferred tax assets and liabilities*

The deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Assets					Liabilities			Net RMB'000
	Unused tax losses RMB'000	Credit losses on trade and other receivables RMB'000	Write- down of inventories RMB'000	Deferred income RMB'000	Sub-total RMB'000	Retained profits to be distributed RMB'000	Accelerated tax allowance for depreciation expenses RMB'000	Sub-total RMB'000	
At 1 January 2019	-	567	164	-	731	-	(569)	(569)	162
Credited/(charged) to the consolidated statement of profit or loss (Note 7)	-	1,715	(39)	4,155	5,831	(13,437)	(1,440)	(14,877)	(9,046)
At 31 December 2019 and 1 January 2020	-	2,282	125	4,155	6,562	(13,437)	(2,009)	(15,446)	(8,884)
Credited/(charged) to the consolidated statement of profit or loss (Note 7)	22,091	(960)	1,423	(1,779)	20,775	13,437	(6,074)	7,363	28,138
At 31 December 2020	22,091	1,322	1,548	2,376	27,337	-	(8,083)	(8,083)	19,254

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Income tax in the consolidated statement of financial position (CONTINUED)**(b) Deferred tax assets and liabilities recognised** (continued)*(ii) Reconciliation to the consolidated statement of financial position*

	2020 RMB'000	2019 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	19,254	4,553
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	(13,437)
	19,254	(8,884)

(c) Deferred tax liabilities not recognised

Except for deferred tax liabilities already recognised in Note 21(b), taxable temporary differences relating to the retained profits of the Group's subsidiaries established in the PRC (excluding Hong Kong SAR) amounted to RMB323,433,000 (2019: RMB484,749,000), where deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits, have not been recognised as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

22 Deferred income

	2020 RMB'000	2019 RMB'000
At 1 January	17,559	506
Additions	–	18,250
Credited to the consolidated statement of profit or loss and other comprehensive income	(1,717)	(1,197)
At 31 December	15,842	17,559

Deferred income represents government grants received to compensate the Group's cost of construction of property, plant and equipment. The grants are amortised over the useful lives of the related property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Capital, reserves and distributions/dividends**(a) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity are set out in the consolidated statement of changes in equity. Details of the changes of the Company's individual components of equity are set out below:

	Share capital RMB'000 Note 23(b)	Share premium RMB'000 Note 23(c)(i)	Capital reserve RMB'000 Note 23(c)(ii)	Exchange reserve RMB'000 Note 23(c)(iv)	(Accumulated losses)/ retained profits RMB'000	Total equity RMB'000
Balance at 1 January 2019	85	-	-	-	-	85
Changes in equity for the year ended 31 December 2019:						
Loss for the year	-	-	-	-	(4,395)	(4,395)
Other comprehensive income	-	-	-	695	-	695
Total comprehensive income for the year	-	-	-	695	(4,395)	(3,700)
Capitalisation issue (Note 23(b))	107,322	(107,322)	-	-	-	-
Issuance of shares (Note 23(b))	26,856	402,359	-	-	-	429,215
Equity settled share-based transactions (Note 20)	-	-	1,788	-	-	1,788
	134,178	295,037	1,788	-	-	431,003
Balance at 31 December 2019 and 1 January 2020	134,263	295,037	1,788	695	(4,395)	427,388
Changes in equity for the year ended 31 December 2020:						
Profit for the year	-	-	-	-	86,030	86,030
Other comprehensive income	-	-	-	(15,376)	-	(15,376)
Total comprehensive income for the year	-	-	-	(15,376)	86,030	70,654
Dividends approved in respect of the previous year	-	(135,907)	-	-	-	(135,907)
Equity settled share-based transactions (Note 20)	-	-	4,078	-	-	4,078
	-	(135,907)	4,078	-	-	(131,829)
Balance at 31 December 2020	134,263	159,130	5,866	(14,681)	81,635	366,213

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Capital, reserves and distributions/dividends (CONTINUED)**(b) Share capital**

	2020		2019	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised share capital (Note (i))	20,000,000	2,000,000	20,000,000	2,000,000

	2020		2019	
	Number of shares	Amount RMB'000	Number of shares	Amount RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	1,500,000,000	134,263	970,000	85
Issuance of shares (Note (ii))	–	–	30,000	3
Capitalisation issue (Note (iii))	–	–	1,199,000,000	107,322
Issuance of shares by initial public offering (Note (iv))	–	–	300,000,000	26,853
At 31 December	1,500,000,000	134,263	1,500,000,000	134,263

Notes:

- (i) The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 August 2018. Its initial authorised share capital was HK\$380,000 divided into 3,800,000 shares with a par value of HK\$0.1 per share. On 19 June 2019 and 8 October 2019, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$380,000 divided into 3,800,000 shares of HK\$0.1 each to HK\$2,000,000,000 divided into 20,000,000,000 shares of HK\$0.1 each.
- (ii) Upon incorporation of the Company, one share was issued at par by the Company to a subscriber which was transferred on the same day to Rosy Astral Limited at par value. On 22 September 2018, an aggregate of 969,999 shares were allotted and issued, credited as fully-paid, at par value by the Company as to 588,627 shares to Rosy Astral Limited, 348,185 shares to Polaris Swift Limited and 33,187 shares to Glorious Year Limited.
- On 9 January 2019, an investor, an existing equity holder of 3% equity interests in Dalipal Pipe since 29 September 2018, agreed to subscribe for 30,000 shares at a consideration of RMB22,635,000. The consideration was satisfied by cash of RMB16,792,000 and the assumption of a shareholder's loan of RMB5,843,000 upon the acquisition of Beauty Bright from this investor as part of the Reorganisation. At the same time, this shareholder's loan was assigned to the Company. RMB3,000 and RMB22,632,000 were credited in the Company's share capital and share premium account respectively.
- (iii) Immediately prior to the completion of the initial public offering, the Company allotted and issued 1,199,000,000 ordinary shares, credited as fully paid, to the equity shareholders of the Company whose names appeared on the register of members of the Company at the close of business on 19 June 2019 by way of capitalisation of the sum of HK\$119,900,000 (equivalent to approximately RMB107,322,000) standing to the credit of the share premium account of the Company.
- (iv) 300,000,000 ordinary shares of par value of HK\$0.1 each were issued at a price of HK\$1.59 per ordinary share upon the listing of the shares of the Company on the Stock Exchange. The proceeds of HK\$30,000,000 (equivalent to approximately RMB26,853,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses, of approximately HK\$424,229,000 (equivalent to approximately RMB379,727,000) were credited to the Company's share premium account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Capital, reserves and distributions/dividends (CONTINUED)**(c) Nature and purpose of reserves****(i) Share premium**

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(ii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to the directors of the Company and the employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(o)(ii).

(iii) Other reserves

The other reserve of the Group at 1 January 2019 represented the paid-in capital and statutory reserve of a PRC subsidiary of the Group, Dalipal Pipe.

Upon the completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group and accordingly, the paid-in capital of Dalipal Pipe was eliminated when preparing the consolidated financial statements. Hence, the other reserve at 31 December 2019 and 2020 comprised (i) the difference between the net assets of Dalipal Pipe and the consideration of RMB27,902,000 received from the Reorganisation; and (ii) the statutory reserve of the PRC subsidiaries of the Group.

In accordance with the relevant PRC laws and regulations, the Company's subsidiaries established in Mainland China are required to transfer 10% of its net profit to the statutory reserve until the reserve balance reaches 50% of the respective subsidiaries' registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the respective subsidiaries and is non-distributable other than in liquidation.

(iv) Exchange reserve

The exchange reserve comprises foreign exchange differences arising from the translation of the financial statements of foreign operations into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

(d) Dividends**(i) Dividends payable to equity shareholders of the Company attributable to the year**

	2020 RMB'000	2019 RMB'000
No final dividend proposed after the end of the reporting (2019: HK\$0.1 per ordinary share)	–	135,907

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Capital, reserves and distributions/dividends (CONTINUED)**(d) Dividends** (continued)

(ii) *Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year*

	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.1 per ordinary share (2019: Nil)	135,907	–

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

24 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables and cash and cash equivalents. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions with a high credit standing assigned by the management of the Group, for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 28.6% (2019: 34.3%) and 84.8% (2019: 76.1%) of the total trade receivables was due from the Group's largest trade debtor and the Group's five largest trade debtors, respectively.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due immediately and up to 90 days from the date of billings. Normally, the Group does not obtain collateral from customers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Financial risk management and fair values of financial instruments (CONTINUED)**(a) Credit risk** (continued)*Trade receivables* (continued)

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2020		
	Expected loss rate	Gross carrying amount	Loss allowances
Current (not past due)	0.6%	173,891	(1,104)
Less than 3 months past due	2.2%	75,940	(1,694)
3 to 6 months past due	6.2%	8,942	(555)
Over 12 months past due	100.0%	2,485	(2,485)
		261,258	(5,838)
2019			
	Expected loss rate	Gross carrying amount	Loss allowances
Current (not past due)	0.9%	386,711	(3,480)
Less than 3 months past due	3.7%	63,710	(2,352)
Over 12 months past due	100.0%	3,001	(3,001)
		453,422	(8,833)

Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Financial risk management and fair values of financial instruments (CONTINUED)**(b) Liquidity risk**

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	2020				
	Contractual undiscounted cash flow				Carrying amount RMB'000
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000	Total RMB'000	
Trade and bills payables	319,246	–	–	319,246	319,246
Other payables and accruals measured at amortised cost	95,260	–	–	95,260	95,260
Lease liabilities	162	–	–	162	151
Interest-bearing borrowings	1,540,277	394,447	61,946	1,996,670	1,922,252
	1,954,945	394,447	61,946	2,411,338	2,336,909
	2019				
	Contractual undiscounted cash flow				Carrying amount RMB'000
	Within 1 year or on demand RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000	Total RMB'000	
Trade and bills payables	280,744	–	–	280,744	280,744
Other payables and accruals measured at amortised cost	136,470	–	–	136,470	136,470
Lease liabilities	970	162	–	1,132	1,095
Interest-bearing borrowings	1,425,710	488,657	411,209	2,325,576	2,202,707
	1,843,894	488,819	411,209	2,743,922	2,621,016

Note 2(b) explains management's plans for managing liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Financial risk management and fair values of financial instruments (CONTINUED)**(c) Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

	2020		2019	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	3.60% – 7.00%	1,711,252	4.13% – 6.55%	1,899,707
Variable rate borrowings:				
Bank borrowings	4.24% – 4.75%	211,000	4.28% – 6.04%	303,000
		1,922,252		2,202,707
Fixed rate borrowings as a percentage of total borrowings		89%		86%

(ii) Sensitivity analysis

At 31 December 2020, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately and RMB1,794,000 (2019: RMB2,576,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to cash flow interest rate risk. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The sensitivity analysis is performed on the same basis as 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Financial risk management and fair values of financial instruments (CONTINUED)**(d) Currency risk**

The Group is exposed to currency risk primarily through sales which give rise to cash, receivables and payables balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currency gives rise to this risk is primarily US\$.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the year end date. Differences resulting from the translation of financial statements of foreign operations into the Group's presentation currency are excluded.

	2020 US\$ RMB'000	2019 US\$ RMB'000
Cash at bank and on hand	5,058	1,501
Trade and bills receivables	17,585	32,756
Other payables and accruals	(4,390)	(6,636)
	18,253	27,621

At 31 December 2020, an increase/decrease of 5% in US\$ with all other variables held constant would have increased/decreased the Group's profit after tax and retained profits by approximately RMB776,000 (2019: RMB1,174,000). In this respect, it is assumed that the pegged rate between HK\$ and US\$ would be materially unaffected by any changes in movement in value of the US\$ against other currencies.

(e) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2020 and 2019.

25 Commitments

Capital commitments outstanding at 31 December 2020 not provided for in the consolidated financial statements were as follows:

	2020 RMB'000	2019 RMB'000
Commitments in respect of property, plant and equipment: – Contracted for	117,865	198,474

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 Material related party transactions**(a) Transactions with a company controlled by the equity shareholders of the Company**

	2020 RMB'000	2019 RMB'000
Borrowings received from a related company	120,000	–
Borrowings repaid to a related party	70,700	–
Interest expenses on borrowings from a related company	3,498	–
Consideration paid for acquisition of non-controlling interests (Note 12(iv))	11,432	–

The borrowings from a related company are unsecured, bear interest at 4.15% per annum and are repayable after one year.

(b) Balances with a company controlled by the equity shareholders of the Company

	2020 RMB'000	2019 RMB'000
Borrowings from a related company	49,300	–

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2020 RMB'000	2019 RMB'000
Short-term employee benefits	7,311	4,716
Contributions to defined contribution retirement plan	144	156
Equity settled share-based payments (Note 20)	4,078	1,788
	11,533	6,660

Total remuneration is included in "staff costs" (see Note 6(b)).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 Company-level statement of financial position

	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Interests in subsidiaries	12	366,908	420,986
Current assets			
Other receivables		–	85
Cash at bank and on hand		500	6,317
		500	6,402
Current liabilities			
Other payables		(479)	–
Amount due to a subsidiary		(716)	*
Net current (liabilities)/assets		(695)	6,402
NET ASSETS		366,213	427,388
CAPITAL AND RESERVES			
Share capital	23	134,263	134,263
Reserves		231,950	293,125
TOTAL EQUITY		366,213	427,388

* Amount less than RMB1,000.

Approved and authorised for issue by the board of directors on 26 March 2021.

Meng Fanyong
Chairman

Gan Shuya
Director

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28 Immediate and ultimate controlling party

The directors of the Company consider the immediate holding company and ultimate controlling parties of the Company at 31 December 2020 to be Rosy Astral Limited, and Mr. Meng Fanyong and Mr. Meng Yuxiang, respectively. Rosy Astral Limited does not produce financial statements available for public use.

29 Impacts of COVID-19 Pandemic

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact from the COVID-19 pandemic on the Group's business and has put in place various contingency measures.

As far as the Group's businesses are concerned, the COVID-19 pandemic and the volatility in the crude and refined oil markets have caused the decrease in both the sales volume and selling price of the Group's OCTG products, and the Group had temporarily suspended its production activities in 2020. The easing of the COVID-19 pandemic situation in the mainland China and stabilisation of the global crude and refined oil markets have led to the recovery of the demand and selling price of OCTG products and the Group had recommenced its production activities since then.

The directors of the Company is optimistic that the COVID-19 pandemic will eventually be under full control, and the Group will continue to closely monitor the situation and implement contingency measures, where necessary in a view to reduce the impacts from the COVID-19 pandemic.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2020

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, and a new standard, IFRS 17, Insurance contract, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, <i>Interest Rate Benchmark Reform – Phase 2</i>	1 January 2021
Amendments to IFRS 3, <i>Business Combinations, Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to IFRSs 2018-2020 Cycle	1 January 2022
Amendments to IAS 1, <i>Presentation of financial statements, Classification of liabilities as current or non-current</i>	1 January 2023
IFRS 17, <i>Insurance contracts</i>	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8, <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IFRS 4, <i>Extension of the temporary exemption from applying IFRS 9</i>	1 January 2023
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS	Years ended 31 December				2020 RMB'000
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	
Revenue	747,867	2,276,874	3,094,823	2,825,969	2,259,402
(Loss)/profit before taxation	(63,018)	274,312	355,260	409,731	(144,130)
Income tax	10,053	(42,103)	(54,062)	(72,321)	26,226
(Loss)/profit for the year	(52,965)	232,209	301,198	337,410	(117,904)
(Loss)/profit for the year attributable to:					
Equity shareholders of the Company	(52,965)	232,209	301,198	333,729	(116,417)
Non-controlling interests	–	–	–	3,681	(1,487)
	(52,965)	232,209	301,198	337,410	(117,904)
ASSETS AND LIABILITIES					
Total assets	1,863,806	2,542,299	3,117,095	4,241,680	3,688,683
Total liabilities	1,209,625	1,655,909	2,354,553	2,715,701	2,426,102
Net assets	654,181	886,390	762,542	1,525,979	1,262,581
Net assets attributable to:					
Equity shareholders of the Company	654,181	886,390	755,145	1,514,901	1,262,581
Non-controlling interests	–	–	7,397	11,078	–
	654,181	886,390	762,542	1,525,979	1,262,581

The results and assets and liabilities of the Group for 2016, 2017 and 2018 are extracted from the Company's prospectus dated 28 October 2019.