



達力普控股有限公司
DALIPAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1921



2020

INTERIM REPORT

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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Meng Fanyong (*Chairman*)
Mr. Zhang Hongyao (*Vice-chairman*)
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

Headquarters and 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
The 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

MANAGEMENT DISCUSSION AND ANALYSIS

The board (the “**Board**”) of directors (the “**Directors**”) of Dalipal Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020 (the “**Period**”).

OVERVIEW

The Group faced lots of challenges in conducting its business in the first half of 2020. Due to the impact of the COVID-19 pandemic (the “**Pandemic**”), the Group suspended production for a long period of time during the first quarter, and its production was interrupted intermittently during the second quarter because of various factors, such as postponed resumption of work by its customers and supply of raw materials being affected by the Pandemic, which resulted in a period-to-period decrease in the production and sales volume and deterioration in the overall financial performance of the Group in the first half of the year. The loss from operations recorded during the Period decreased by approximately 103.0% as compared to the profit of approximately RMB178.9 million recorded for the corresponding period in 2019; the net loss for the Period was approximately RMB34.7 million, as compared to the net profit of approximately RMB117.0 million recorded for the corresponding period in 2019; the loss attributable to equity shareholders of the Company for the Period amounted to RMB33.2 million in the first half of 2020 as compared to the profit attributable to equity shareholders of the Company of approximately RMB115.8 million record for the corresponding period in 2019.

BUSINESS REVIEW AND PROSPECTS

	January to June 2020		January to June 2019		Change	
	Sales RMB million	Proportion of sales %	Sales RMB million	Proportion of sales %	Sales RMB million	Percentage %
OCTG	535.9	54.2%	877.1	60.7%	(341.2)	-38.9%
Other oil pipes	211.1	21.3%	181.3	12.6%	29.8	16.4%
Pipe billets	242.4	24.5%	385.6	26.7%	(143.2)	-37.1%
	989.4	100.0%	1,444.0	100.0%	(454.6)	-31.5%

	January to June 2020		January to June 2019		Change	
	Sales RMB million	Proportion of sales %	Sales RMB million	Proportion of sales %	Sales RMB million	Percentage %
Domestic sales	904.7	91.4%	1,336.7	92.6%	(432.0)	-32.3%
Overseas sales	84.7	8.6%	107.3	7.4%	(22.6)	-21.1%
Total	989.4	100.0%	1,444.0	100.0%	(454.6)	-31.5%

During the Period, the Group recorded a decrease of approximately 38.9% in the revenue from OCTG to approximately RMB535.9 million (corresponding period of 2019: RMB877.1 million), an increase of approximately 16.4% in the revenue from other oil pipes to approximately RMB211.1 million (corresponding period of 2019: RMB181.3 million), and a decrease of approximately 37.1% in the revenue from pipe billets to approximately RMB242.4 million (corresponding period of 2019: RMB385.6 million).

MANAGEMENT DISCUSSION AND ANALYSIS

The decrease in the revenue from OCTG was mainly due to the more conservative exploration and development of oil companies as affected by the Pandemic, resulting in a decrease in both of the sales volume and selling price. The sales price of other oil pipes has been reduced affected by the OCTG market. After the first phase expansion project was put into production, while stabilizing existing customers, the Group also introduced new customers, and the corresponding production and sales increased; the decrease in the revenue from pipe billets was mainly due to the stagnant market demand of pipe billets in the first half of the year as affected by the Pandemic, resulting in a decrease in both of the sales volume and selling price.

During the Period, the revenue from overseas sales of the Group decreased by approximately 21.1% to RMB84.7 million (corresponding period of 2019: RMB107.3 million), mainly attributable to the decrease in the Group's product prices as affected by the Pandemic.

The outbreak of the Pandemic in early 2020 has affected the business and economic activities around the world and has brought about additional uncertainties to 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 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 to ensure the Group is able to meet 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 Period. 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 changes to the future development of the Group's business, except for the impact of the Pandemic.

EVENTS AFTER THE REPORTING PERIOD

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

FINANCIAL REVIEW

Revenue

The Group recorded a revenue of approximately RMB989.4 million for the Period, representing a decrease of approximately 31.5% as compared to approximately RMB1,444.0 million for the corresponding period in 2019. During the Period, the revenue from OCTG and pipe billets decreased, whilst the revenue from other oil pipes increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

The Group recorded cost of sales of approximately RMB916.8 million in total for the Period, representing a decrease of approximately 22.1% as compared to approximately RMB1,177.2 million for the corresponding period in 2019, mainly due to the decrease in sales volume of the Group's products.

Gross profit and gross profit margin

	January to June 2020		January to June 2019	
	Gross profit RMB million	Gross profit margin %	Gross profit RMB million	Gross profit margin %
OCTG	87.0	16.2%	208.5	23.8%
Other oil pipes	9.8	4.6%	31.6	17.4%
Pipe billets	13.3	5.5%	26.7	6.9%

The total gross profit of the Group for the Period was approximately RMB72.6 million, representing a decrease of approximately 72.8% as compared to approximately RMB266.8 million in the first half of 2019. The decrease in total gross profit and overall gross profit margin for the Period compared to that for the corresponding period in 2019 was mainly due to the decrease in the selling price of the Group's products whilst the costs of raw materials remained relatively stable.

Other income

The Group's other income for the Period was approximately RMB10.3 million, representing an increase of approximately RMB5.8 million as compared to RMB4.5 million for the corresponding period in 2019, attributable to an increase in government grants.

Administrative expenses

The administrative expenses of the Group for the Period was approximately RMB65.2 million, representing an increase of approximately 5.7% as compared to approximately RMB61.7 million in the first half of 2019.

Finance costs

The finance costs of the Group during the Period was approximately RMB48.2 million, representing an increase of approximately 37.7% as compared to approximately RMB35.0 million for the corresponding period in 2019, mainly because the originally capitalized loan interests of the Phase One expansion project were accounted for as finance costs after the project was put into operation.

Income tax

During the Period, the Group received income tax credit of approximately RMB18.8 million, as compared to RMB26.8 million of income tax expenses in the first half of 2019. The Group recorded income tax credit for the Period was mainly because (1) the Group recorded a loss during the Period, which gave rise to deductible deferred income tax expenses in accordance with the PRC tax law; and (2) in 2020, Dalipal Hong Kong Company Limited, one of the Group's subsidiaries, which was identified as tax residents in Hong Kong, was subject to tax calculated at the reduced 5% tax rate in respect of the Group's overseas distribution pursuant to the regulation between the Mainland China and the Hong Kong Special Administrative Region for the avoidance of double taxation with respect to taxes on income, and the difference from the tax calculated at the original 10% tax rate was written back.

MANAGEMENT DISCUSSION AND ANALYSIS

Loss for the Period and EBITDA

The Group recorded a loss of approximately RMB34.7 million for the Period as compared with the profit of approximately RMB117.0 million recorded in the first half of 2019.

The Group's EBITDA for the Period decreased by approximately 75.6% to approximately RMB53.1 million from approximately RMB217.9 million in the first half of 2019.

Inventories

The Group's inventory turnover days increased from 69 days in 2019 to 84 days for the Period, mainly attributable to slower inventory turnover as affected by the Pandemic.

Loss attributable to equity shareholders for the Period

The loss attributable to equity shareholders of the Company for the Period was RMB33.2 million, as compared to the profit attributable to the shareholders of the Company of approximately RMB115.8 million recorded in the first half of 2019.

Capital expenditure

During the Period, the Group invested approximately RMB22.5 million (first half of 2019: approximately RMB269.1 million) in property, plant and equipment, representing a decrease of RMB246.6 million as compared to the corresponding period in 2019, mainly attributable to the investment in the construction of Phase One expansion project in the corresponding period in the previous 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 30 June 2020, cash at bank and on hand amounted to approximately RMB611.7 million in aggregate (31 December 2019: RMB810.6 million).

As at 30 June 2020, interest-bearing borrowings of the Group with fixed/floating interest rate amounted to approximately RMB1,809.0 million, of which approximately RMB888.7 million were long-term borrowings and approximately RMB920.3 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/period end and multiplied by 100%, was approximately 88.3% as at 30 June 2020, representing a decrease of 2.9 percentage points as compared to approximately 91.2% at the end of 2019, attributable to a decrease in the total borrowings of the Group.

Current ratio, which is calculated based on the current assets divided by the current liabilities, as at 30 June 2020 remained basically the same as at 31 December 2019 at 1.2.

MANAGEMENT DISCUSSION AND ANALYSIS

Employees and remuneration policy

As at 30 June 2020, the Group had 1,859 employees (30 June 2019: 1,739 employees) in total. The total staff costs amounted to approximately RMB82.0 million (first half of 2019: RMB80.4 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. The Company has also adopted the Pre-IPO Share Option Scheme (as defined below) and Post-IPO Share Option Scheme (as defined below) for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, who contribute to the success of the Group's operations.

Pledge of assets

As at 30 June 2020, the Group's property, plant and equipment with carrying amount of RMB1,225.3 million and other chattels with carrying amount of RMB535.6 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. The Group does not have a formal foreign currency hedging policy or conducts hedging exercise to reduce its foreign currency exposure. Nevertheless, the Group will closely monitor the financial market and would consider appropriate measures as and when necessary.

Significant investments

During the Period, the Group did not hold any material investments.

Material acquisitions and disposals

During the Period, the Group did not have any material acquisition or disposal.

Contingent liabilities

As at 30 June 2020, the Group had no contingent liabilities.

Use of Proceeds from Initial Public Offering ("IPO")

On 8 November 2019, the Company issued 300,000,000 new ordinary Shares of the Company ("**Shares**") of HK\$0.10 each in connection with the listing of its Shares on the Stock Exchange (the "**IPO**") at the final offer price of HK\$1.59. The net proceeds after deducting the underwriting commission and other expenses arising from the IPO were approximately HK\$426.3 million (approximately RMB383.7 million).

As stated in the prospectus of the Company dated 28 October 2019, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

The following table sets forth the utilisation of the net proceeds during the Period:

	Original planned use of net proceeds RMB million	Amount of Reallocation RMB million	Amount utilised as at 30 June 2020 RMB million	Unutilised proceeds as at 30 June 2020 RMB million
To fund the Phase Two Expansion	339.2	(200.0)	30.8	108.4
To strengthen the Group’s product research and development and innovation capabilities	9.2	–	3.7	5.5
To strengthen the Group’s relationships with key customers, enlarge the Group’s customer base and further expand the Group’s sales to overseas markets	7.7	–	4.2	3.5
For general replenishment of working capital and other general corporate purpose	27.6	–	7.6	20.0
For repayment of borrowings	–	200.0	100.0	100.0
	383.7	–	146.3	237.4

The remaining balance of such net proceeds was 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 30 June 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 in light of the impact of the Pandemic.

Dividends

The Directors do not recommend the payment of interim dividend for the Period.

The Board recommended a final dividend of HK\$0.1 per share for the year ended 31 December 2019, and the dividend was paid on 3 July 2020.

PURCHASE, SALE OR REDEMPTION 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 Period.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance, and has complied with all the code provisions as set out in the CG Code during the Period.

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 Period.

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 them to oversee particular aspects of the Group under defined terms of reference. The terms of reference align with the CG Code and have been uploaded onto the websites of the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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 align with the CG Code, and have been uploaded onto the websites of the Stock Exchange and the Company.

The Audit Committee is mainly responsible for (i) making recommendations to the Board on the appointment, re-appointment, or removal of external auditors; (ii) reviewing interim report and, annual report drafts, and financial statements (including any significant financial reporting judgements mentioned in them); and (iii) overseeing the Company’s financial reporting, risk management, and internal control systems.

The Audit Committee has reviewed the Group’s unaudited condensed consolidated interim financial information for the six months ended 30 June 2020. Based on their review and discussions with the management, the Audit Committee was satisfied that the financial information was prepared in accordance with applicable accounting standards and fairly presented the Group’s financial position and results for the six months ended 30 June 2020.

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 have been uploaded onto the websites of the Stock Exchange and the Company.

The Nomination Committee is mainly responsible for (i) reviewing the Board’s composition, structure, size, and diversity of the Board; (ii) assessing the independence of the Independent Non-executive Directors; (iii) making recommendations to the Board on the nomination, appointment or re-appointment of Directors; and (iv) succession-planning for especially the Chairman and the CEO.

MANAGEMENT DISCUSSION AND ANALYSIS

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 have been uploaded onto 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.

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.

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.

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2020, the interests and short positions of the Directors and their associates in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules, were as follows:

Long positions

Name	Name of Group member/ associated corporation	Nature of interest	Number of shares/ amount of registered capital (Note 1)	Approximate percentage of shareholding (Note 5)
Directors				
Mr. Meng Fanyong	The Company	Interest of controlled corporation (Note 2)	706,353,600(L)	47.1%
	Shengjie Pipe	Interest of controlled corporation (Note 3)	RMB101,000(L)	1.0%
Mr. Zhang Hongyao	The Company	Beneficial owner	15,000,000(L) (Note 4)	1.0%
Ms. Gan Shuya	The Company	Beneficial owner	10,800,000(L) (Note 4)	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 4)	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) The registered capital for the sum of RMB101,000 in Shengjie (Cangzhou) Oil Pipe Company Limited* (盛捷(滄州)石油管有限公司) ("Shengjie Pipe") is held by Dalipal Group Co., Ltd.* (達力普集團有限公司) ("Dalipal Group") (which is owned as to approximately 50.7% by Mr. Meng Fanyong). By virtue of the SFO, Mr. Meng is taken to be interested in the registered capital of Shengjie Pipe held by Dalipal Group.
- (4) 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"). Details of the Pre-IPO Share Option Scheme are set out under the section headed "Share Option Schemes" below.
- (5) The percentage represents the number of shares or registered capital involved divided by the number of the Company's/the Company's associated corporations' issued shares or registered capital as at 30 June 2020, being 1,500,000,000.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had 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), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2020, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or a short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long positions

Name of shareholders	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding (Note 3)
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 which Mr. Meng Fanyong is interested in.
- (3) The percentage represents the number of Shares divided by the number of issued Shares as at 30 June 2020.

Save as disclosed above, as at 30 June 2020, other than the Directors and the chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, no corporation or person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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.

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

The total number of Shares available for issue under the Post-IPO Share Option Scheme was 150,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of the Company's 2019 annual report and the date of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 the offer for the 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.

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.

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 (being 150,000,000 Shares) 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 Period. No share option was outstanding under the Post-IPO Share Option Scheme as at 30 June 2020.

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 more than 8 years (as at the date of the Company's 2019 annual report: more than 9 years).

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 42,300,000 Shares (as at the date of the Company's 2019 annual report: 42,300,000), representing 2.82% of the total number of Shares in issue as at the date of the Company's 2019 annual report and the date of this report.

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.

Movements of the share options granted under the Pre-IPO Share Option Scheme during the Period 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 Period				Outstanding as at 30 June 2020	
				Granted	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

CORPORATE GOVERNANCE AND OTHER INFORMATION

	Date of grant	Exercise period (Note 1)	Outstanding as at 1 January 2020	Exercise Price per Share HKD (Note 2)	During the Period				Outstanding as at 30 June 2020
					Granted	Exercised	Cancelled	Lapsed	
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
Senior Management									
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
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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

- (1) The vesting date of the relevant share options (“**Share Options**”) under the Pre-IPO Share Option Scheme is the respective first date of the exercise period as set out above. 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 for the year ended 31 December 2019 of the Group (i.e. 20 March 2020).

The fair values of the share options granted under the Pre-IPO Share Option Scheme during the year ended 31 December 2019 at the grant date were: (a) Mr. Zhang Hongyao (executive Director): HK\$10,415,000; (b) Ms. Gan Shuya (executive Director): HK\$9,175,600; (c) Mr. Bai Gongli (chief executive officer): HK\$11,469,500; and (d) Ms. Wong Gianne (senior management): HK\$2,293,900.

Significant estimates and assumptions are required to be made in determining the parameters for applying Binomial Option Pricing Model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying Shares and the expected life of the options. These estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such equity awards expected to vest, which may in turn significantly impact the determination of the share-based payments. The following assumptions were used to derive the fair values of options granted in 2019:

	2019
Share price at Valuation Date	HK\$1.53
Exercise price	HK\$0.477
Expected volatility	31.86%-32.84%
Option life	6-7 years
Risk-free rate	1.50%
Expected dividend yield	7.1%

Save as disclosed above, no share options have been granted, exercised, cancelled or lapsed under the Pre-IPO Share Option Scheme during the Period.

Meng Fanyong

Chairman of the Board and Executive Director

Hong Kong, 21 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Revenue	4	989,439	1,444,000
Cost of sales		(916,840)	(1,177,200)
Gross profit	4(b)	72,599	266,800
Other income	5	10,280	4,480
Selling expenses		(22,976)	(30,690)
Administrative expenses		(65,186)	(61,728)
(Loss)/profit from operations		(5,283)	178,862
Finance costs	6(a)	(48,203)	(35,038)
(Loss)/profit before taxation	6	(53,486)	143,824
Income tax	7	18,787	(26,792)
(Loss)/profit for the period		(34,699)	117,032
Other comprehensive income for the period (after tax):			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
– Exchange differences on translation into presentation currency		(919)	–
Total comprehensive income for the period		(35,618)	117,032
(Loss)/profit for the period attributable to:			
Equity shareholders of the Company		(33,212)	115,758
Non-controlling interests		(1,487)	1,274
(Loss)/profit for the period		(34,699)	117,032
Total comprehensive income for the period attributable to:			
Equity shareholders of the Company		(34,131)	115,758
Non-controlling interests		(1,487)	1,274
Total comprehensive income for the period		(35,618)	117,032
(Loss)/earnings per share	8		
Basic and diluted (RMB)		(0.02)	0.10

The notes on pages 24 to 39 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONAt 30 June 2020 – unaudited
(Expressed in RMB)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment	9	1,937,239	1,972,521
Deferred tax assets	17	10,880	4,553
		1,948,119	1,977,074
Current assets			
Inventories	10	411,484	440,631
Trade and bills receivables	11	647,857	914,630
Prepayments, deposits and other receivables	12	89,143	98,725
Cash at bank and on hand	13	611,664	810,620
		1,760,148	2,264,606
Current liabilities			
Trade and bills payables	14	241,329	280,744
Other payables and accruals	15	278,001	172,139
Interest-bearing borrowings	16(a)	920,267	1,361,807
Lease liabilities		646	934
Current taxation		6,182	28,020
		1,446,425	1,843,644
Net current assets		313,723	420,962
Total assets less current liabilities		2,261,842	2,398,036
Non-current liabilities			
Interest-bearing borrowings	16(b)	888,650	840,900
Lease liabilities		–	161
Deferred tax liabilities	17	–	13,437
Deferred income		16,700	17,559
		905,350	872,057
NET ASSETS		1,356,492	1,525,979

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020 – unaudited
(Expressed in RMB)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
CAPITAL AND RESERVES	18		
Share capital		134,263	134,263
Reserves		1,213,886	1,380,638
Total equity attributable to equity shareholders of the Company		1,348,149	1,514,901
Non-controlling interests		8,343	11,078
TOTAL EQUITY		1,356,492	1,525,979

Approved and authorised for issue by the board of directors on 21 August 2020.

Meng Fanyong
Chairman**Gan Shuya**
Director

The notes on pages 24 to 39 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITYFor the six months ended 30 June 2020 – unaudited
(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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2019	85	–	–	487,763	–	267,297	755,145	7,397	762,542
Changes in equity for the six months ended 30 June 2019:									
Profit and other comprehensive income for the period	–	–	–	–	–	115,758	115,758	1,274	117,032
Issuance of shares	3	22,632	–	(5,843)	–	–	16,792	–	16,792
Balance at 30 June 2019 and 1 July 2019	88	22,632	–	481,920	–	383,055	887,695	8,671	896,366
Changes in equity for the six months ended 31 December 2019:									
Profit for the period	–	–	–	–	–	217,971	217,971	2,407	220,378
Other comprehensive income	–	–	–	–	867	–	867	–	867
Total comprehensive income	–	–	–	–	867	217,971	218,838	2,407	221,245
Capitalisation issue	107,322	(107,322)	–	–	–	–	–	–	–
Issuance of shares	26,853	379,727	–	–	–	–	406,580	–	406,580
Equity settled share-based transactions	–	–	1,788	–	–	–	1,788	–	1,788
Appropriation to reserves	–	–	–	14,737	–	(14,737)	–	–	–
	134,175	272,405	1,788	14,737	–	(14,737)	408,368	–	408,368
Balance at 31 December 2019	134,263	295,037	1,788	496,657	867	586,289	1,514,901	11,078	1,525,979

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2020 – unaudited
(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	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 the six months ended 30 June 2020:									
Loss for the period	-	-	-	-	-	(33,212)	(33,212)	(1,487)	(34,699)
Other comprehensive income	-	-	-	-	(919)	-	(919)	-	(919)
Total comprehensive income	-	-	-	-	(919)	(33,212)	(34,131)	(1,487)	(35,618)
Equity settled share-based transactions	-	-	3,286	-	-	-	3,286	-	3,286
Distributions declared by a subsidiary of the Group	-	-	-	-	-	-	-	(1,248)	(1,248)
Dividends approved in respect of the previous year (Note 18(a) (ii))	-	(135,907)	-	-	-	-	(135,907)	-	(135,907)
	-	(135,907)	3,286	-	-	-	(132,621)	(1,248)	(133,869)
Balance at 30 June 2020	134,263	159,130	5,074	496,657	(52)	553,077	1,348,149	8,343	1,356,492

The notes on pages 24 to 39 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENTFor the six months ended 30 June 2020 – unaudited
(Expressed in RMB)

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations		407,228	87,845
Income tax paid		(22,815)	(13,802)
Net cash generated from operating activities		384,413	74,043
Investing activities			
Payments for acquisitions of property, plant and equipment		(37,902)	(221,019)
Interest received		3,957	1,153
Net cash used in investing activities		(33,945)	(219,866)
Financing activities			
Proceeds from issuance of shares		–	16,792
Proceeds from bank and other interest-bearing borrowings		817,707	1,281,423
Repayment of bank and other interest-bearing borrowings		(1,211,497)	(882,480)
Capital element of lease rentals paid		(449)	(217)
Interest element of lease rentals paid		(37)	(22)
Interest paid		(58,916)	(55,252)
Net cash (used in)/generated from financing activities		(453,192)	360,244
Net (decrease)/increase in cash and cash equivalents		(102,724)	214,421
Effect of exchange rate changes on cash and cash equivalents		638	111
Cash and cash equivalents at 1 January	13	572,067	130,618
Cash and cash equivalents at 30 June	13	469,981	345,150

The notes on pages 24 to 39 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 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 Basis of preparation

Prior to the incorporation of the Company, the principal activities of the Group were carried out by Dalipal Pipe Company (達力普石油專用管有限公司, "Dalipal Pipe") which was established as a limited liability company on 18 September 1998 in the People's Republic of China (the "PRC"). To rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange, the Group underwent a reorganisation (the "Reorganisation"), and the Company became the parent company of Dalipal Pipe and the holding company of the companies now comprising the Group. The Reorganisation only involved inserting the Company and other newly formed entities with no substantive operations as holding companies of Dalipal Pipe and there was no change in the business and operation of Dalipal Pipe. Accordingly, the consolidated financial statements for the six months ended 30 June 2019 in this interim financial report has been prepared and presented as a continuation of the consolidated financial statements of Dalipal Pipe with the assets and liabilities of Dalipal Pipe recognised and measured at their historical carrying amounts prior to the Reorganisation.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "IASB"). It was authorised for issue on 21 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the board of directors is included on page 40.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

3 Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of 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 IAS 1 and IAS 8, *Definition of material*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. 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 to by-pass the need to evaluate whether certain qualifying 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 interim reporting period. 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.

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:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Sales of OCTG	535,904	877,062
Sales of other oil pipes	211,144	181,307
Sales of pipe billets	242,391	385,631
	989,439	1,444,000

(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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

4 Revenue and segment reporting (CONTINUED)**(b) Segment reporting** (continued)*(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 six months ended 30 June 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.

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 for the six months ended 30 June 2020 and 2019 is set out below.

	Six months ended 30 June 2020			
	OCTG RMB'000	Other oil pipes RMB'000	Pipe billets RMB'000	Total RMB'000
Revenue from external customers	535,904	211,144	242,391	989,439
Reportable segment gross profit	87,084	9,752	13,260	110,096
	Six months ended 30 June 2019			
	OCTG RMB'000	Other oil pipes RMB'000	Pipe billets RMB'000	Total RMB'000
Revenue from external customers	877,062	181,307	385,631	1,444,000
Reportable segment gross profit	208,548	31,595	26,657	266,800

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

4 Revenue and segment reporting (CONTINUED)**(b) Segment reporting** (continued)*(ii) Reconciliation of reportable segment gross profit*

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Reportable segment gross profit (Note 4(b)(i))	110,096	266,800
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the COVID-19 pandemic	(37,497)	–
Reportable segment gross profit derived from the Group's external customers	72,599	266,800

(iii) Geographic information

The following table sets 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:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Mainland China	904,721	1,336,726
Overseas:		
Turkmenistan	48,302	1,477
Oman	1,181	88,298
Others	35,235	17,499
	84,718	107,274
	989,439	1,444,000

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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

5 Other income

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Government grants (including amortisation of deferred income)	7,652	1,398
Interest income	3,957	1,153
Net foreign exchange gain/(loss)	17	(265)
Others	(1,346)	2,194
	10,280	4,480

6 (Loss)/profit before taxation

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

(a) Finance costs

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest expenses on borrowings	46,975	49,821
Interest expenses on lease liabilities	37	22
Others	1,191	2,673
	48,203	52,516
Less: interest expenses capitalised into construction in progress	–	(17,478)
	48,203	35,038

(b) Other items

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Depreciation expenses		
– owned property, plant and equipment	55,066	35,808
– right-of-use assets	3,314	3,327
Impairment losses on trade and other receivables	5,394	2,359
Research and development costs	11,261	12,432
Cost of inventories (Note 10(b))	879,343	1,177,200

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

7 Income tax

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current taxation:		
– Provision for the period	6,482	24,249
– Over-provision in respect of prior period	(5,505)	(1,526)
	977	22,723
Deferred taxation (Note 17(a)):		
– Origination and reversal of temporary differences	(13,045)	(1,137)
– (Change in applicable withholding tax rate)/ withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (v))	(6,719)	5,206
	(19,764)	4,069
	(18,787)	26,792

Notes:

- (i) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The Company and the subsidiaries of the Group incorporated in Hong Kong 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 Hong Kong Dollar (“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%. These companies have no assessable profits subject to Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 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/ending 31 December 2018, 2019 and 2020.
- (v) Pursuant to the Sino-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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

The basic loss per share for the six months ended 30 June 2020 is calculated based on the loss attributable to equity shareholders of the Company of RMB33,212,000 and the weighted average of 1,500,000,000 ordinary shares in issue during the interim period.

The basic earnings per share for the six months ended 30 June 2019 was calculated based on the profit attributable to equity shareholders of the Company of RMB115,758,000 and the weighted average of 1,200,000,000 ordinary shares, which comprised 970,000 ordinary shares issued as at 1 January 2019, 30,000 ordinary shares issued on 9 January 2019 as a result of the Reorganisation, and the related 1,199,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering of the Company, as if the above total 1,200,000,000 ordinary shares were outstanding throughout the six months ended 30 June 2019.

	Six months ended 30 June	
	2020	2019
Issued ordinary shares at 1 January	1,500,000,000	970,000
Issuance of shares in January 2019	–	30,000
Effect of capitalisation issue	–	1,199,000,000
Weighted average number of shares in issue	1,500,000,000	1,200,000,000

(b) Diluted (loss)/earnings per share

The diluted loss per share for the six months ended 30 June 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.

There was no difference between basic and diluted earnings per share for the six months ended 30 June 2019 as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2019.

9 Property, plant and equipment

During the six months ended 30 June 2020, the Group incurred capital expenditure on property, plant and equipment with a cost of RMB22,548,000 (six months ended 30 June 2019: RMB269,053,000).

No property, plant and equipment was disposed of during the six months ended 30 June 2020. Property, plant and equipment with a cost of RMB792,000 was disposed of during the six months ended 30 June 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials	112,303	114,501
Work in progress	135,190	145,649
Finished goods	165,773	181,314
	413,266	441,464
Less: write-down of inventories	(1,782)	(833)
	411,484	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:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	878,394	1,177,366
Write-down/(reversal of write-down) of inventories	949	(166)
	879,343	1,177,200

11 Trade and bills receivables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables	405,437	453,422
Less: loss allowance	(11,386)	(8,833)
	394,051	444,589
Bills receivables	253,806	470,041
	647,857	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.

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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

11 Trade and bills receivables (CONTINUED)**(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:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 month	144,842	231,615
1 to 3 months	170,900	178,652
3 to 6 months	72,246	34,322
Over 6 months	6,063	–
	394,051	444,589

(b) 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 of good credit quality and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 30 June 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 RMB286,054,000 (31 December 2019: RMB203,620,000).

Bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totaling RMB15,988,000 (31 December 2019: RMB30,860,000) at 30 June 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 bank loans and trade payables amounted to RMB15,988,000 (31 December 2019: RMB30,860,000) at 30 June 2020.

- (c) At 30 June 2020, trade and bills receivables with an aggregate carrying amount of RMB160,216,000 (31 December 2019: RMB233,642,000) have been pledged for the Group's interest-bearing borrowings (see Note 16).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

12 Prepayments, deposits and other receivables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Prepayments for purchase of raw materials	9,661	14,661
Prepayments for transportation and other miscellaneous expenses	13,245	11,177
VAT recoverable	7,586	14,767
Receivable in connection with compensation for relocation of production facilities	55,554	55,554
Others	6,232	2,860
	92,278	99,019
Less: loss allowance	(3,135)	(294)
	89,143	98,725

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

13 Cash at bank and on hand

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank	521,637	720,916
Time-deposits with original maturity of less than three months	90,000	89,500
Cash on hand	27	204
Cash and cash equivalents included in the consolidated statement of financial position	611,664	810,620
Less: restricted deposits (Note (i))	(141,683)	(238,553)
Cash and cash equivalents included in the condensed consolidated cash flow statement	469,981	572,067

The Group's operations in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) 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 16), letters of credit and bank acceptance notes issued by the Group (see Note 14).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

14 Trade and bills payables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade payables	211,645	259,358
Bills payables	29,684	21,386
	241,329	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:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 month	136,407	212,193
1 to 3 months	46,148	21,612
3 to 6 months	29,733	13,611
Over 6 months	29,041	33,328
	241,329	280,744

15 Other payables and accruals

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Payables for construction of property, plant and equipment	88,914	103,507
Payables for other taxes	2,040	2,424
Payables for staff related costs	2,596	1,611
Interest payables		
– A related party (Note 21(b))	339	–
– Others	3,213	10,105
Payables for transportation and utilities expenses	4,886	12,831
Payables for costs incurred in connection with the listing of the Company's shares	–	1,140
Dividends payable	135,907	–
Distributions payable to non-controlling equity holders of a subsidiary of the Group (Note 21(b))	1,248	–
Others	5,877	4,852
	245,020	136,470
Financial liabilities measured at amortised cost	245,020	136,470
Receipts in advance	32,981	35,669
	278,001	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 UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

16 Interest-bearing borrowings**(a) The Group's short-term borrowings comprise:**

	At 30 June 2020 RMB'000	At 31 December 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	349,767	530,170
– Guaranteed by a subsidiary of the Group	185,320	258,870
– Unguaranteed and unsecured	–	173,587
	839,767	1,206,307
Other borrowings:		
– Unguaranteed and unsecured	–	110,000
	839,767	1,316,307
Add: current portion of long-term borrowings (Note 16(b))	80,500	45,500
	920,267	1,361,807

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment	646,650	660,900
– Secured by the Group's inventories	146,250	147,500
– Guaranteed by a subsidiary of the Group	76,250	78,000
	869,150	886,400
Other borrowings from a related party (Note 21(a)):		
– Unguaranteed and unsecured	100,000	–
	969,150	886,400
Less: current portion of long-term borrowings (Note 16(a))	(80,500)	(45,500)
	888,650	840,900

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

16 Interest-bearing borrowings (CONTINUED)

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Property, plant and equipment	1,225,270	1,043,415
Inventories	250,150	250,150
Trade and bills receivables (Note 11(c))	160,216	233,642
Cash at bank and on hand – restricted deposits	125,268	225,702
	1,760,904	1,752,909

17 Deferred tax assets and liabilities

(a) 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/period are as follows:

Deferred tax arising from:	Assets				Liabilities				Net
	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	–	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)	10,751	1,348	237	(272)	12,064	13,437	(5,737)	7,700	19,764
At 30 June 2020	10,751	3,630	362	3,883	18,626	–	(7,746)	(7,746)	10,880

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

17 Deferred tax assets and liabilities (CONTINUED)**(b) Reconciliation to the consolidated statement of financial position**

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	10,880	4,553
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	(13,437)
	10,880	(8,884)

18 Capital, reserves and dividends**(a) Dividends****(i) Dividends payable to equity shareholders of the Company attributable to the interim period**

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$0.1 per ordinary share (six months ended 30 June 2019: HK\$Nil per ordinary share)	135,907	–

(b) 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 on 8 November 2019. 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 at HK\$0.477 and is settled gross in shares.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

18 Capital, reserves and dividends (CONTINUED)

(b) Equity settled share-based transactions (continued)

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

	Six months ended 30 June 2020		Year ended 31 December 2019	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
Outstanding at the beginning of the period/year	HK\$0.477	45,000,000	–	–
Granted during the period/ year	–	–	HK\$0.477	45,000,000
Forfeited during the period/year	HK\$0.477	(2,700,000)	–	–
Outstanding at the end of the period/year	HK\$0.477	42,300,000	HK\$0.477	45,000,000
Exercisable at the end of the period/year	–	–	–	–

19 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 30 June 2020 and 31 December 2019.

20 Commitments

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Commitments in respect of property, plant and equipment: – Contracted for	173,688	198,474

21 Material related party transactions

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Borrowings received from a related company	100,000	–
Interest expenses on borrowings from a related company	2,047	–

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (CONTINUED)

21 Material related party transactions (CONTINUED)**(b) Balances with a company controlled by the equity shareholders of the Company**

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Borrowings from a related company (Note 16(b))	100,000	–
Interest payable to a related company (Note 15)	339	–
Distributions payable to non-controlling equity holders of a subsidiary of the Group (Note 15)	1,248	–

(c) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Short-term employee benefits	3,286	2,092
Contributions to defined contribution retirement plan	63	84
Equity settled share-based payments	3,286	–
	6,635	2,176

22 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. These contingency measures include but not limited to carry 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 in ensuring the Group is able to meet customers' demands, 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 COVID-19 pandemic situation evolves.

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 during the six months ended 30 June 2020. The gradual 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 exact timing and extent of recovery of the Group's business are still uncertain and subject to the development of the COVID-19 pandemic. Nonetheless, 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.

REVIEW REPORT TO THE BOARD OF DIRECTORS OF DALIPAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 18 to 39 which comprises the consolidated statement of financial position of Dalipal Holdings Limited (the “**Company**”) as of 30 June 2020 and the related consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

21 August 2020