



達力普控股有限公司
DALIPAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1921



ANNUAL REPORT

2021

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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

Non-executive Director

Mr. Yin Zhixiang
(*Redesignated from executive Director
on 4 April 2022*)

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
(*Resigned on 10 December 2021*)
Mr. Cheung Ting Pong
(*Resigned on 10 December 2021*)
Mr. Chow Calvin Cheuk Yin
(*Resigned on 10 September 2021*)

Company Secretary

Mr. Lau Ying Kit (*Appointed on 10 December 2021*)

Authorised Representatives

Mr. Meng Fanyong
Mr. Lau Ying Kit

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

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

Headquarters and 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

Investor Relations Contact

ir@dalipal.com

GLOSSARY

“AGM”	the forthcoming annual general meeting of the Company to be held on 27 June 2022
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company, adopted on 19 June 2019, as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“Board Diversity Policy”	a board diversity policy setting out the approach to achieve diversity on the Board
“Bohai New District Factory”	our factory located in Bohai New District, Cangzhou, Hebei Province, the PRC
“Business Day(s)”	a day (other than a Saturday, Sunday or public holiday) in Hong Kong on which banks in Hong Kong are open generally for normal banking business
“BVI”	the British Virgin Islands
“Cayman Islands Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules and in force during the Year
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“CNPC”	China National Petroleum Corporation (中國石油天然氣有限公司)
“Company” or “our Company”	Dalipal Holdings Limited (達力普控股有限公司), an exempted company limited by shares incorporated in the Cayman Islands on 28 August 2018 under the Companies Law
“Company Secretary”	a company secretary of the Company
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and, in the case of our Company, means Mr. Meng, Mr. YX Meng and Rosy Astral individually and as a group of persons
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules

GLOSSARY

“Corporate Governance Committee”	the corporate governance committee of the Board
“Covenantors”	Mr. Meng, Mr. YX Meng and Rosy Astral
“Dalipal Bohai Branch”	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) established on 11 November 2011 in the PRC, being a deregistered branch office of Dalipal Pipe located in our Bohai New District Factory
“Dalipal Equipment Manufacturing”	Dalipal Special Type Equipment Manufacturing Co., Ltd.* (達力普特型裝備製造有限公司), which was established on 21 July 2008 under the laws of the PRC and principally engaged in the production of pipe billets prior to its dissolution in May 2012
“Dalipal Group”	Dalipal Group Co., Ltd.* (達力普集團有限公司), a limited liability company established under the laws of the PRC on 8 June 2007 and a connected person of our Company by virtue of it being an associate of Mr. Meng, our executive Director
“Dalipal Pipe”	Dalipal Pipe Company* (達力普石油專用管有限公司) (formerly known as Cangzhou Huabei Petroleum OCTG Co., Ltd* 滄州華北石油專用管材有限公司 and Huabei China Petroleum Cangzhou OCTG Co., Ltd.* 華北石油滄州專用管材有限公司), a limited liability company established under the laws of the PRC on 18 September 1998 and an indirect wholly owned subsidiary of our Company
“Deed of Non-competition”	the non-compete undertaking dated 19 June 2019 and executed by our Controlling Shareholders in favour of our Company
“Director(s)”	the director(s) of our Company
“EGM”	an extraordinary general meeting of our Company
“Eligible Shareholder(s)”	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 meeting of the Company
“Group” or “our Group” or “we” or “our” or “us”	collectively, our Company and its subsidiaries
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IPO”	the initial public offering of the Shares on the Stock Exchange on Listing Date

GLOSSARY

“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Date”	8 November 2019, the date on which the Shares were listed on the Main Board of the Stock Exchange by way of IPO
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Macau”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market (excluding the options market) operated by the Stock Exchange and which is independent from and operated in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, conditionally adopted on 19 June 2019, which will become effective upon Listing, as amended, supplemented or otherwise modified from time to time
“Model Code”	the Model Code for Securities set out in Appendix 10 to the Listing Rules
“Mr. Bai”	Mr. Bai Gongli (白功利), chief executive officer of our Group prior to 4 April 2022
“Mr. Cheng”	Mr. Cheng Haitao (成海濤), an independent non-executive Director
“Mr. Guo”	Mr. Guo Kaiqi (郭開旗), an independent non-executive Director
“Mr. Meng”	Mr. Meng Fanyong (孟凡勇), one of our founders, chairman of our Board, an executive Director and a Controlling Shareholder. He is the father of Mr. YX Meng
“Mr. Wong”	Mr. Wong Jovi Chi Wing (王志榮), an independent non-executive Director
“Mr. Yin”	Mr. Yin Zhixiang (殷志祥), who was re-designated as a non-executive Director from executive Director with effect from 4 April 2022
“Mr. YX Meng”	Mr. Meng Yuxiang (孟宇翔), deputy chief executive officer of our Group, an executive Director and a Controlling Shareholder. He is the son of Mr. Meng
“Mr. Zhang”	Mr. Zhang Hongyao (張紅耀), vice-chairman of our Board and an executive Director, who has been appointed as the chief executive officer of the Group with effect from 4 April 2022
“Ms. Gan”	Ms. Gan Shuya (干述亞), chief operating officer of our Group and an executive Director
“Ms. Xu”	Ms. Xu Wenhong (徐文紅), chief legal officer of our Group and an executive Director

GLOSSARY

“Nomination Committee”	the nomination committee of the Board
“North China Second Drilling”	North China Petroleum Administration Bureau Second Drilling Engineering Company* (華北石油管理局第二鑽井工程公司)
“Notice”	a written notice by a shareholder who wishes to propose a person other than a director of the Company for election of a Director
“Phase Two Expansion”	the phase two production capacity expansion at the Group’s factory located at Bohai New District
“Polaris Swift”	POLARIS SWIFT LIMITED (星捷有限公司), a company incorporated in the BVI with limited liability on 25 April 2018, wholly owned by certain employees of the Group and a connected person of our Company by virtue of it being a substantial Shareholder
“Share Option Scheme”	the share option scheme was adopted by a resolution in writing by the then shareholders of the Company on 19 June 2019
“PRC” or “China”	the People’s Republic of China which, for the purposes of this annual report excludes Hong Kong, Macau and Taiwan
“pre-IPO Share Option Scheme”	the pre-IPO share option scheme approved and adopted by our Company on 19 June 2019
“Proposal”	a written notice of the proposal by a shareholder to put forward proposal at a general meeting of the Company
“Prospectus”	the prospectus of the Company dated 28 October 2019
“Reallocation”	the reallocation of part of the unutilised net proceeds from the IPO originally allocated for the Phase Two Expansion to the repayment of certain existing interest-bearing borrowings of the Group as resolved by the Board on 10 June 2020
“Requisition”	a written requisition by the Eligible shareholder(s) who wish to convene an EGM

GLOSSARY

“Remuneration Committee”	the remuneration committee of the Board
“Risk Management Committee”	the risk management committee of the Board
“RMB”	Renminbi yuan, the lawful currency of the PRC
“Rosy Astral”	ROSY ASTRAL LIMITED (盛星有限公司), a company incorporated in the BVI with limited liability on 26 April 2018, and owned as to 80.63% by Mr. Meng, 19.37% by Mr. YX Meng, being one of our Controlling Shareholders
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Shares
“Sinopec”	China Petroleum and Chemical Corporation (中國石油化工集團公司)
“sq.m.”	square metres
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Year”	the financial year ended 31 December 2021
“%”	per cent





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present you the annual report of our Company for the year ended 31 December 2021.

In the past year, although the upheaval and recurring COVID-19 pandemic still had impacts on the Group's operation as compared with that in 2020, with the understanding, concern and encouragement of all shareholders, with the strong support and help of all sectors of society and customers, and through the unremitting efforts of all employees, the operating environment of the Group has been greatly improved, and operating performance has been significantly improved. In 2021, in the face of the continuing impact of the pandemic and the increasing uncertainty in the market environment, the Group had been able to review and judge the situation, moving forward with determination despite the difficulties, focusing on internal and external improvement, management upgrading, production variety expansion, timely optimization, market layout adjustment, new customers and new markets expansion, and potential high-quality customers development, carry out timely adjustments and transformations in business strategies to cope with the rapidly evolving competitive changes in the market, and work effectively to enhance the Group's anti-risk capability and competitiveness. Firmly guided by "creating a first-class and a century-old enterprise", the Group will plan and arrange various tasks, focus on operation, and achieve the goal of greatly improving core competitiveness, and break timely and effectively the shackles of operation and management. The Group has achieved a historic breakthrough in the bidding of CNPC's projects since the establishment of the Group. The market share, popularity and reputation in the market of CNPC "00857.HK" have been significantly increased; the non-API products independently developed by the Group have been promoted by leaps and bounds for the first time in oil and gas field market of seven countries, and obtained bulk sales orders. In the overseas market, we obtained certifications from three companies including Petroecuador and Turkish Petroleum Corporation, and our orders from international market increased substantially compared to the previous year. Our dual adjustment, layout of product structure and market structure developed gradually have achieved initial success, and our brand reputation as well as a number of indicators such as order volume, sales revenue and receivables settlement for the Year have reached historical high point since the establishment of the Group. Our interim results have achieved a turnaround and the full year results have seen a significant improvement over last year's performance, with the Group recording a profit of approximately RMB82.9 million for the year ended 31 December 2021 (loss approximately RMB117.9 million for 2020). The Board has therefore resolved to declare a final dividend of HK\$0.03 per Share for the year ended 31 December 2021.

Looking ahead to 2022, in the face of the ever-changing external environment, the Group will continue to unswervingly adhere to its development goal of "creating a first-class and a century-old enterprise", and complete the formulation of the five-year development plan for 2023-2027, including implement an incentive plan for employees, continue to promote the talent management system, integrate internal management and corporate governance into a main engine for the Group's development; effectively respond to various challenges, overcome various difficulties, and adapt to changes, constantly improve the ability and level of green production and intelligent manufacturing, and transform unfavorable factors into new competitive advantages of high-quality development, green development and sustainable development of the company, continue to deepen the focus on operation, practice cultural leadership, and make benchmark with first-class enterprises, strengthen the focus on finance, continue to promote the optimization and improvement of internal operation and management, continuously improve management efficiency, pay close attention to the two markets of capital and products, and strive to build a professional company with international competitiveness. In terms of product structure, the Group will adhere to the market positioning of focusing on OCTG, form the OCTG market pattern with 30% international and 70% domestic distribution, and maintaining concurrent diversified development of OCTG, special seamless steel pipes and other products, and further optimise and refine the product structure by integrating the benefit contribution at certain point of time and capital return; in terms of customer base and market structure, the Group plans to continue its deep engagement in the annual centralised procurement and bidding projects of CNPC and Sinopec in the domestic market, and accelerate the certification of international oil companies, so as to maintain a relatively faster and sustained revenue growth in overseas markets. In the future, the existing production capacity will be expanded, and the level of intelligence, informatization and green manufacturing will continue to be improved. Starting to collaborate with the new energy industry and extending services to new businesses is one of the new growth points of the Group's future development. Amongst the most important strategies to accelerate the development of the Group include internal management to create efficiency, give full play to the role of capital platforms, pay attention to domestic and overseas industry restructuring trends, and seize opportunities to promote mergers and increase efficiency.

Finally, on behalf of the Board, I promise that the Group will take proactive measures to fully overcome various challenges, guarantee the business performance for steady growth, and be committed to creating the best returns for shareholders. At the same time, I would like to extend my sincerest gratitude to all shareholders and investors for their continuous support to the Company.

Meng Fanyong
Chairman of the Board and Executive Director

Hong Kong, 21 March 2022

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Executive Directors

Mr. Meng Fanyong (孟凡勇), aged 60

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 40 years of experience in oilfield equipment business. He also has over 23 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 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 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. YX Meng, 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 52

Executive Director and Vice-Chairman of the Board

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 17 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 53

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 28 years of experience in commercial legal advisory and over 16 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) 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) 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 35

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 10 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 54

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 36 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 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.

Non-executive Director**Mr. Yin Zhixiang (殷志祥), aged 64**

Non-Executive Director (Re-designated from executive Director with effect from 4 April 2022)

Mr. Yin was an executive Director appointed on 27 February 2019 and the chief technical officer responsible for the overall research and development and technical management of the Group during the Year. With effect from 4 April 2022, Mr. Yin was re-designated as a non-executive Director. He has more than 40 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Independent non-executive Directors**Guo Kaiqi (郭開旗), aged 66**

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.

Wong Jovi Chi Wing (王志榮), aged 41

Independent non-executive Director

Mr. Wong is an independent non-executive Director appointed on 19 June 2019. Mr. Wong is the chairman of the Audit Committee and a member of the Corporate Governance Committee of the Company. Mr. Wong has over 20 years of experience of corporate finance, investment and asset management experience. Mr. Wong is currently the managing director of Seazen Resources Asset Management Limited. Prior to that, Mr. Wong served as an executive director of Wonder Capital Group Limited from March 2018 to April 2022; as a director of distribution department of Janus Henderson Investors (Hong Kong) Limited from July 2014 to March 2018. Before asset management, Mr. Wong was at investment banking division of China Merchants Securities (HK) Co., Ltd. and Haitong International Capital Limited respectively with extensive experience in Pre-IPO, IPO and M&A in various industries, such as TMT, hospital operation, property development and manufacturing. Mr. Wong also worked in Auto22.com Ltd from December 2002 to February 2010, and his last position was general manager. Mr. Wong holds a Master of Business Administrative from the Hong Kong University of Science & Technology and a Bachelor of Science from The University of Auckland. He is also a member of CPA Australia.

Cheng Haitao (成海濤), aged 63

Independent non-executive Director

Mr. Cheng is an independent non-executive Director appointed on 19 June 2019. Mr. Cheng has over 27 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); 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* (攀鋼集團成都鋼鈮有限公司) 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) 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

SENIOR MANAGEMENT**Gongli (白功利), aged 57**

Chief executive officer (ceased with effect from 4 April 2022)

Mr. Bai was the chief executive officer of the Group responsible for the overall administrative and operational management of the Group prior to 4 April 2022. 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. During the Year, Mr. Bai had 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. Lau Ying Kit (劉英傑), aged 48

Company secretary and finance and investor relations director

Mr. Lau Ying Kit (劉英傑), aged 48, is the director of finance and investor relations, company secretary of the Group. He joined the Group in December 2021. Prior to joining to the Group, Mr. Lau worked as chief financial officer, Company Secretary and independent non-executive directors for certain listed companies in Hong Kong and Canada. Mr. Lau has over 20 years experience in financing and accounting in China, Hong Kong and Canada. Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a master degree in finance from City University of Hong Kong. He is currently also an independent non-executive director of four companies listed on the Main Board of the Stock Exchange, namely Kingdom Holdings Limited (Stock Code: 528) and United Strength Power Holdings Limited (Stock Code: 2337), Sinco Pharmaceuticals Holdings Limited (Stock Code: 6833) and Kangli International Holdings Limited (Stock Code: 6890).

* For identification purpose only



MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the light of the impact of various factors, such as the repercussions of the COVID-19 pandemic, the increase in number of factors that may affect domestic and foreign economic positions, higher price of raw materials, the adjustment of export tax rebate policies and the depreciation of the US Dollar, the Group has proactively adopted effective counter-measures during the Year. Such measures include the entering into bids in the oilfield market, the expansion of export market and the expansion of product structure to achieve relatively remarkable results. During the Year, the Group has received purchase orders with total purchase quantity of approximately 310,000 tonnes and total purchase amount of approximately RMB2,100 million from its first participation in the annual CNPC's Centralized Procurement Bidding Project, and the Group has also been awarded the bid for the Sinopec's Centralized Procurement Bidding Project. DLP-T4, the self-developed new product by the Company's research and development team for the purpose of shale gas exploration, has gained significant recognition by customers during its trials and promotions stage, with batch application for the CNPC's development project of shale gas in southern Sichuan, opening up a market of high-end product line for the Group.

The proactive counter-measures by the Group for challenges in various aspects have led to the increase in annual revenue by 66.5% for the Year as compared with the previous year, the increase in gross profit margin from 4.6% of the previous year to 11.1% for the Year. The profit for the Year was RMB82.9 million, representing an increase of 170.3% as compared with the previous year; the profit attributable to the equity shareholders of the Company increased to RMB82.9 million for the Year from loss of RMB116.4 million for the previous year; the basic earnings per share was RMB0.06 for the Year, representing an increase of 175.0% from the previous year.

Prospects

While it is difficult to foresee whether foreign countries are able to prevent and control the COVID-19 pandemic, the management of the Group is of the view that the domestic market has entered the dynamic clearing phase for regular epidemic prevention and control, with speedy economic recovery and the gradual formation of economic development pattern in which the domestic circle is the mainstay and with the domestic and international double circles. Under such economic background, along with the issuance of the national policy for energy safety, recovery of international oil prices and the turnaround from dropping in international oil production, and with the investment needs of domestic and international exploration companies maintaining on a reasonable level, it is expected that the inelastic and structural demands of oil pipes will increase. With the Group's research and development capabilities, the various intellectual property rights and patents and the world-leading intelligent automated production facilities, the Board believes the competitiveness of the Group's high-end products will further increase.

In 2022, the Group will facilitate various projects around the operational strategic positioning of "Specialized, Refinement, Differential, Innovation", endeavouring the expansion of new products and markets while focusing on the OCTG products; with the capability to research and develop patents to improving product structure, increase the proportion of high-end productions, and raise the profitability of our products; relying on digitized technology to build effective and intellectual manufacturing plants and operation flow system, which in turn assisting the development with low cost, high quality and high effectiveness; facilitating the implementation of energy-saving and reducing consumption and emission, building low-carbon and environmental-friendly "Green Factories"; conducting the certification as an oversea oil company and increasing the proportion in international market; implementing the management methods of "Meticulous, Precise and Refined Operation", to continuously improve our financial structure and promoting healthy and sustainable development of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

For the Year, the Group has recorded a total revenue of approximately RMB3,762.6 million, representing a significant increase by approximately 66.5% as compared to approximately RMB2,259.4 million for the year ended 31 December 2020, which was mainly due to the increase in selling prices and sales volume of the Group's products. Further, in addition to the development of new customer bases, the Group's adjustment in product structure has also achieved remarkable success and hence the revenue has increased significantly. During the Year, the Group's revenue has also increased significantly due to the substantial increase in export sales by the Group.

Cost of sales

The Group recorded cost of sales of approximately RMB3,345.1 million for the Year, representing an increase by 55.2% as compared to approximately RMB2,155.0 million for the year ended 31 December 2020, which was mainly due to the increase in sales volume and the price of raw material and energy.

Gross profit and gross profit margin

The total gross profit of the Group for the Year was approximately RMB417.5 million, representing an increase by 299.9% as compared to RMB104.4 million in the previous year. The Group's overall gross profit margin for the Year was 11.1%, representing an increase of 6.5 percentage points as compared to the gross profit margin of 4.6% for the previous year, which was mainly due to the increase in selling price and sales volume of the Group's products on a year-on-year basis. Further, the application of the Group's technological enhancement and innovation results in the Group's production process has offset the impact in the cost of raw materials caused by the increase in the price of bulk commodities, thereby allowing the Group to achieve higher profit margin.

Other income

For the Year, the Group's other income was approximately RMB21.2 million, representing an increase by approximately RMB4.5 million as compared to RMB16.7 million for the previous year, mainly due to the increase in gains on sale of raw materials.

Administrative expenses

For the Year, the administrative expenses of the Group was approximately RMB121.6 million, representing an increase by 4.3%, as compared to approximately RMB116.6 million for the preceding year, mainly attributable to the increase in the cost of labour, R&D, tax and surcharges.

Finance costs

The finance costs of the Group for the Year was approximately RMB118.8 million, representing an increase by 22.5%, as compared to approximately RMB97.0 million for the preceding year, mainly attributable to the increase in discount expense of acceptance bills.

Income tax

For the Year, the Group recorded income tax of approximately RMB16.8 million representing an increase by approximately RMB43.0 million, as compared to the income tax credit of RMB26.2 million for the preceding year. There was an increase in income tax expense was mainly because the Group experienced a turnaround from loss to profit for the Year.

Profit for the year

The profit of the Group increased to approximately RMB82.9 million for 2021 from loss of approximately RMB117.9 million for 2020, which was mainly attributed to the significant increase in revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

In 2021, the Group invested approximately RMB76.4 million (2020: approximately RMB72.1 million) in property, plant and equipment.

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 2021, cash at bank and on hand amounted to approximately RMB551.6 million in aggregate (2020: RMB416.2 million).

As at 31 December 2021, interest-bearing borrowings of the Group amounted to approximately RMB2,467.2 million, of which RMB650.3 million were long-term borrowings and RMB1,816.9 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 142.3%, representing an increase by 23.0 percentage points as compared to 119.3% in 2020, due to the increase in the interest-bearing borrowings.

Current ratio, which is calculated based on the current assets divided by the current liabilities, increased from 0.9 as at 31 December 2020 to 1.05 as at 31 December 2021.

Employees and remuneration policy

As at 31 December 2021, the Group had 1,592 employees (2020: 1,453 employees). During the Year, the total staff costs amounted to approximately RMB191.4 million (2020: RMB165.6 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 quality 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.

Pledge of assets

As at 31 December 2021, the Group's property, plant and equipment with carrying amount of RMB1,103.6 million and other chattels with carrying amount of RMB744.9 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

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

Contingent liabilities

As of 31 December 2021, the Group did not have any contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS

Use of proceeds from IPO

The Group's Shares were listed on the Stock Exchange on Listing Date by way of 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, 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. For detailed information 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 (RMB million)	Unutilised net proceeds as at 31 December 2021 (RMB million)
To fund the Phase Two Expansion	339.2	(200.0)	78.3	60.9
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, expand the Group's customer base and further expand the Group's sales to overseas markets	7.7	–	5.3	2.4
For general replenishment of working capital and other general corporate purpose	27.6	–	27.6	–
For loan repayment	–	200.0	200.0	–
Total	383.7	–	314.9	68.8

The unutilised net proceeds are kept in banks and approved financial institutions in Hong Kong and the PRC. As at the date of this annual 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 2021 are currently expected to be fully utilised on or before 31 December 2022. There is delay to the timeline for the use of proceeds as disclosed in the Company's 2020 annual report (expected to be fully utilised on or before 30 June 2022), as the progress 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 2021.

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, special seamless steel 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 2021, 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 page 11 and "Management Discussion and Analysis" on pages 17 to 20.

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 2021 by key financial performance indicators is set out in the section headed "Financial Review" on pages 18 to 20.

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 THE YEAR UNDER REVIEW

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 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 89.

The Board recommended the payment of a final dividend of HK\$0.03 (2020: nil) per ordinary Share for the year ended 31 December 2021. Subject to the approval of shareholders at the forthcoming AGM, the proposed final dividend will be payable to shareholders whose names appear on the register of the members of the Company on Thursday, 7 July 2022.

ANNUAL GENERAL MEETING

The annual general meeting is currently scheduled to be held on Monday, 27 June 2022. A notice convening the AGM and other relevant documents will be published and despatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS FOR THE AGM AND FINAL DIVIDEND

In order for determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 22 June 2022 to Monday, 27 June 2022, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 21 June 2022.

For the purpose of determining members who are qualified for the proposed final dividend for the Year, and conditional on the passing of the resolution approving the declaration of the final dividend by the shareholders of the Company in the AGM, the register of members of the Company will also be closed from 5 July 2022 to 7 July 2022 (both days inclusive), during which no transfer of shares can be registered. To qualify for the final dividend (which will be payable on or about 15 July 2022) to be approved at the AGM, shareholders of the Company must ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on 4 July 2022.

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 is set out in the section headed "Environmental, Social & Governance Report" on pages 47 to 82 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 152 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 2021, the Company's reserves available for distribution amounted to approximately RMB235.8 million, included in the Company's retained profits and share premium accounts.

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 33.1% of the Group's total purchases and the percentage of purchases attributable to the Group's largest supplier accounted for approximately 10.6% 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 43.9% of the Group's total sales and the percentage of the sales attributable to the Group's largest customer accounted for approximately 12.9% 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*)
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

* Mr. Yin Zhixiang has been re-designated as a non-executive Director with effect from 4 April 2022.

In accordance with the Articles of Association of the Company, one-third of our Directors will retire in the AGM, and being eligible, have offered themselves to be re-elected and re-appointed at the 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 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. Mr. Yin, who was re-designated as a non-executive Director from executive Director with effect from 4 April 2022, has signed a letter of appointment with the Company for a term of three years from 4 April 2022, which may be terminated by not less than 15 days' notice in writing served by either party on the other.

No Director proposed to be re-elected at the 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 12 to 15 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 throughout the Year 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 2021, 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 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 by Directors of Listed Issuers 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	The Company	Interest of controlled corporation (Note 2)	706,353,600(L)	47.05%
Mr. Zhang	The Company	Beneficial owner	12,000,000(L) (Note 3)	0.80%
Ms. Gan	The Company	Beneficial owner	8,400,000(L) (Note 3)	0.56%
Mr. Guo	The Company	Beneficial owner	598,000(L)	0.04%
Chief Executive				
Mr. Bai	The Company	Beneficial owner	10,500,000(L) (Note 3)	0.7%

Notes:

- (1) The letter "L" denotes the person's long position in the Shares and underlying Shares of the Company.
- (2) Rosy Astral is owned as to approximately 80.63% by Mr. Meng. By virtue of the SFO, Mr. Meng 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) as at 31 December 2021. 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 2021, being 1,501,200,000.

REPORT OF THE BOARD OF DIRECTORS

Save as disclosed above, as at 31 December 2021, 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

Share Option Scheme

The Share Option Scheme was 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 "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 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 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 is HK\$1.00, which will be payable on or before a prescribed acceptance date. In relation to any options granted under the 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 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 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 Share Option Scheme, the 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 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 Share Option Scheme had a remaining life of approximately 7 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 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 9.99% of the total number of 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 Pre-IPO Share Option Scheme and 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.

Details of the movements in the Company's outstanding share options granted under the Share Option Scheme for the year ended 31 December 2021 were as follows:

Category of participant	Date of grant	Exercise period (Note 1)	Outstanding	Exercise Price per Share HKD	Granted (Note 2)	During the Year			Outstanding
			as at 1 January 2021			Exercised	Cancelled	Lapsed	as at 31 December 2021
Employee	10 December 2021	From 30 November 2023 to 30 November 2031	-	2.56	1,000,000 (Note 2)	-	-	-	1,000,000
	10 December 2021	From 2 December 2024 to 30 November 2031	-	2.56	1,000,000 (Note 2)	-	-	-	1,000,000
	10 December 2021	From 1 December 2025 to 30 November 2031	-	2.56	1,000,000 (Note 2)	-	-	-	1,000,000
	10 December 2021	From 30 November 2026 to 30 November 2031	-	2.56	1,000,000 (Note 2)	-	-	-	1,000,000
Total	-	-	-	-	4,000,000	-	-	-	4,000,000

Notes:

- The vesting period of the share options under the Share Option Scheme is from the date of grant until the commencement of the exercise period.
- The closing price per Shares immediately before the date on which the shares were granted was HK\$2.57.

For the fair value of the options granted under the Share Option Scheme during the Year, please refer to note 20(c) to the consolidated financial statements.

As at the date of this report, the total number of Shares available for allotment and issue pursuant to the exercise of options granted under the Share Option Scheme is 146,000,000 Shares, representing approximately 9.73% of the issued share capital of the Company.

REPORT OF THE BOARD OF DIRECTORS

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 7 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 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 2021	Exercise Price per Share HKD (Note 2)	During the Year				Outstanding as at 31 December 2021
					Granted	Exercised	Cancelled	Lapsed	
Directors									
Mr. Zhang	8 October 2019	From 9 November 2021 to 8 November 2026	3,000,000	0.477	-	-	-	3,000,000 (Note 3)	-
	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	-	-	-	-	3,000,000	12,000,000
Ms. Gan	8 October 2019	From 9 November 2020 to 8 November 2025	1,200,000	0.477	-	-	-	-	1,200,000
	8 October 2019	From 9 November 2021 to 8 November 2025	2,400,000	0.477	-	-	-	2,400,000 (Note 3)	-
	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
			10,800,000	-	-	-	-	2,400,000	8,400,000

REPORT OF THE BOARD OF DIRECTORS

Date of grant	Exercise period (Note 1)	Outstanding as at 1 January 2021	Exercise Price per Share HKD (Note 2)	During the Year				Outstanding as at 31 December 2021	
				Granted	Exercised	Cancelled	Lapsed		
Senior Management									
Mr. Bai	8 October 2019	From 9 November 2020 to 8 November 2025	1,500,000	0.477	-	-	-	-	1,500,000
	8 October 2019	From 9 November 2021 to 8 November 2025	3,000,000	0.477	-	-	-	3,000,000 (Note 3)	-
	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
			13,500,000	-	-	-	-	3,000,000	10,500,000
Ms. Wong Gianne (Resigned on 10 December 2021)	8 October 2019	From 9 November 2020 to 8 November 2025	600,000	0.477	-	600,000 (Note 4)	-	-	-
	8 October 2019	From 9 November 2021 to 8 November 2025	600,000	0.477	-	600,000 (Note 4)	-	-	-
	8 October 2019	From 9 November 2022 to 8 November 2025	600,000	0.477	-	-	-	600,000 (Note 5)	-
	8 October 2019	From 9 November 2023 to 8 November 2025	600,000	0.477	-	-	-	600,000 (Note 5)	-
	8 October 2019	From 11 November 2024 to 8 November 2025	600,000	0.477	-	-	-	600,000 (Note 5)	-
			3,000,000	-	-	1,200,000	-	1,800,000	-
Total			42,300,000	-	-	1,200,000	-	10,200,000	30,900,000

REPORT OF THE BOARD OF DIRECTORS

Notes:

- (1) The vesting period of the 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 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 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 expected to be vested on 9 November 2021 has 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).
- (4) The weighted average closing share price immediately before the dates on which the share options were exercised was HK\$1.95 per share.
- (5) Ms. Wong Gianne has resigned as a joint company secretary of the Company with effect from 10 December 2021 and has accordingly ceased to be a Pre-IPO Eligible Participant under the Pre-IPO Share Option Scheme. The share options granted to Ms. Wong Gianne under the Pre-IPO Share Option Scheme that were not exercised at the time of cessation of employment with the Company lapsed on 10 December 2021 in accordance with the terms of the Pre-IPO Share Option Scheme.

Except for the options which have lapsed or exercised 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 2021.

As one of the vesting conditions in relation to the financial performance of the Group for the year ended 31 December 2021 were not met, 50% of the share options granted to Mr. Zhang, Ms. Gan and Mr. Bai expected to be vested on 9 November 2022 have lapsed on the date when the Board approved the final results of the Group for the year ended 31 December 2021 (i.e. 21 March 2022). 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 26,700,000 Shares, representing approximately 1.78% of the total number of Shares in issue as at the date of this report.

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.

REPORT OF THE BOARD OF DIRECTORS

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

As at 31 December 2021, 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)	47.05%
Rosy Astral	Beneficial owner	706,353,600(L)	47.05%
Polaris Swift Limited	Beneficial owner	417,822,000(L)	27.83%

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. By virtue of the SFO, Ms. Luo Yumei is deemed to be interested in the Shares of the Company which Mr. Meng 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.

NON-COMPETITION UNDERTAKING

Each of the Covenantors, each being a Controlling Shareholder of the Company, has entered into a 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.

REPORT OF THE BOARD OF DIRECTORS

CONNECTED TRANSACTIONS

A summary of the material related party transactions made during the Year is disclosed in note 26 to the consolidated financial statements. The related party transactions set out in note 26(a) and 26(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 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 December 2023.

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 are set out in the section headed "Share Option Schemes" above and in note 20 to the consolidated financial statements.

DEFINED CONTRIBUTION SCHEMES

Details of the Group's contribution to defined contribution retirement schemes in the PRC and Hong Kong are set out in note 6(b) to the financial statements. Under the Mandatory Provident Fund Scheme ("MPF Scheme"), no forfeited contributions for the MPF Scheme may be used by the employee to reduce the existing level of contributions as the contributions are fully vested to the employee upon payments to the MPF Scheme. Under the retirement benefit plan managed by the local government authority in the PRC participated by the subsidiaries of the Group established in the PRC, no forfeited contributions will be used by the employer to reduce the existing level of contributions.

PERMITTED INDEMNITY PROVISION

According to the Company's Articles of Association, each Director was entitled during the year ended 31 December 2021 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.

REPORT OF THE BOARD OF DIRECTORS

EQUITY-LINKED AGREEMENT

Apart from the Pre-IPO Share Option Scheme and the 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

21 March 2022

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 CG Code 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 in terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Having made specific enquiries with each of the Directors, all Directors have confirmed to the Company that they have complied with the required standards set out in the Model Code 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

During the Year, the Board consisted 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)
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

* Mr. Yin Zhixiang has been re-designated as a non-executive Director with effect from 4 April 2022.

To the best knowledge of the Company, except for Mr. Meng is the father of Mr. YX Meng, 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 12 to 15 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 is the chairman of the Board who is responsible for leading the efficient business development of the Group.

Mr. Bai was the chief executive officer of the Group who is responsible for the overall administrative and operational management of the Group during the Year. With effect from 4 April 2022, Mr. Bai ceased to be chief executive officer of the Group and Mr. Zhang has been appointed as chief executive officer of the Group in place of Mr. Bai.

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 Company Secretary 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

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

The CG Code stipulates that non-executive Directors shall be appointed for a specific term subject to re-election and 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 or 1 January 2020, which can be terminated by either party by not less than three months 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. The non-executive Director has been appointed with effect from 4 April 2022, and such appointment can be terminated by either party by giving a written notice to the other party at least 15 days 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.

COMPANY SECRETARY

Mr. Lau Ying Kit is the Company Secretary of the Company 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.

Mr. Lau Ying Kit was appointed as the Company Secretary on 10 December 2021.

Mr. Lau undertook no less than 15 hours of professional training to update their skills and knowledge for the year ended 31 December 2021.

All Directors have access to the advice and services of the Company Secretary 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 (as committee chairman), Mr. Guo and Mr. Cheng.

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 two meetings during the Year. At the meetings, the committee reviewed the Group's financial statements, external auditor KPMG's audit plan and quotation, and the terms of reference of the committee. The Audit Committee has also reviewed the Group's financial results 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 (as committee chairman), Mr. Guo and Mr. Cheng.

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 Policy" 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 three 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 (as committee chairman), Mr. Cheng and Mr. YX Meng.

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 three 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 share option scheme on 19 June 2019. 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 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	2
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	–
	4

CORPORATE GOVERNANCE REPORT

Corporate Governance Committee

The Corporate Governance Committee consists of one executive Director and two independent non-executive Directors, namely Ms. Xu (as committee chairlady), Mr. Guo, and Mr. Wong.

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 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, two 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 (as committee chairlady), Mr. Guo, and Mr. Cheng.

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, two 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 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 fourteen 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 Company Secretary 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 Company Secretary, and have the liberty to seek external professional advice upon reasonable request.

MEETING ATTENDANCE RECORDS

During the Year, two audit committee, three nomination committee, three remuneration committee, two corporate governance committee, two risk management committee, fourteen 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	-	3/3	-	-	-	14/14	1/1
Mr. Zhang	-	-	-	-	-	14/14	1/1
Ms. Xu	-	-	-	2/2	2/2	14/14	1/1
Mr. YX Meng	-	-	3/3	-	-	14/14	1/1
Ms. Gan	-	-	-	-	-	14/14	1/1
Mr. Yin	-	-	-	-	-	14/14	1/1
Mr. Guo	2/2	3/3	3/3	2/2	2/2	14/14	1/1
Mr. Wong	2/2	-	-	2/2	-	14/14	1/1
Mr. Cheng	2/2	3/3	3/3	-	2/2	14/14	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 2021 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 83 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 2021. 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 EGM.

Shareholders to convene an EGM

The Eligible Shareholder(s) shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

Eligible Shareholder(s) must deposit 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 Secretary, 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 Company Secretary 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 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 Company Secretary 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 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 of consent 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 Company Secretary 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

A Shareholder should lodge a written 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 AGM of the Company will be held on 27 June 2022, with notice of the AGM sent to the shareholders not less than 21 clear days and not less than 20 clear Business Days before the date of 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 AND GOVERNANCE REPORT

ABOUT THE GROUP

Dalipal Holdings Limited (hereinafter referred to as “the Company” or “we”) and its subsidiaries (together, the “Group”) are mainly engaged in the research and development and manufacture of Oil Country Tubular Goods (“OCTG”) of Dalipal Pipe began in 1998 and is headquartered in Cangzhou, Hebei Province, China. The Group continues to focus on innovation, promote cleaner production, green manufacturing, intelligent services. We are committed to creating greater value and building sustainable development capabilities for the petroleum and energy industry and customers around the world.

The Company is committed to research and development, manufacturing, and providing integrated professional services, focusing on growth as the intelligent manufacturing enterprise for OCTG. The Company is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on November 8, 2019, to meet future business development needs.

In response to the national “Carbon Peaking and Neutrality Goals”, the Group actively promotes the low-carbon transition through the formulation of a scientific action plan, striving to achieve carbon peaking by 2030 and carbon neutrality by 2050. For details of the Carbon Reduction Initiative Implementation Plan, please refer to the “A4 Climate Change” section of this Report.

ABOUT THIS REPORT

The Group is pleased to present its third Environmental, Social and Governance (“ESG”) Report (the “Report”) to provide an overview of the Group’s management of significant issues affecting the operation, including environmental, social and governance (“ESG”) issues.

REPORTING PERIOD

This Report describes the Group’s initiative and performance regarding the environmental and social aspects during the period from 1 January 2021 to 31 December 2021 (the “Reporting Period”).

REPORTING SCOPE

This Report covers all subsidiaries of the Group in Hong Kong and Hebei Province of the People’s Republic of China (the “PRC”), whose core business is principally engaged in the development, manufacture, and sale of OCTG and special seamless steel pipes and pipe billets. The Group will continue to assess the impacts of its business on key environmental, social and governance aspects, which are included in this Report. For details of corporate governance, please refer to the Corporate Governance Report in the Group’s Annual Report 2021.

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 disclosure obligation requirements of the provisions have been prepared to provide stakeholders with a better understanding of the Group’s progress and development direction in respect of operation and sustainable development. Specific key performance indicators (“KPIs”) that the Group considers to be material were disclosed during the Reporting Period. The Group will continue to optimize and improve the disclosure of KPIs. The final chapter of this Report is accompanied by a complete index to facilitate readers’ understanding of the Report in accordance with the ESG Reporting Guide.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

REPORTING PRINCIPLES

In preparing the Report, the Group follows the following four reporting principles:

Principle	Definition	Measures
Materiality	The issues covered in the Report should reflect the Group's significant impact on the economy, environment, and society or the scope that affect the stakeholders' decision-making and evaluation.	Through various communication channels to understand stakeholders' expectations for the Company's sustainable development and to identify key ESG issues to the Group.
Quantitative	The Report should measurably disclose key performance indicators.	The data in this Report are disclosed and calculated in accordance with the requirements of Appendix 27 of the Listing Rules "Environmental, Social and Governance Reporting Guide", Appendix 2: Reporting Guidance on Environmental KPIs, and Appendix 3: Reporting Guidance on Social KPIs to disclose the Group's environmental and social key performance indicators in a quantifiable manner wherever possible.
Balance	The Report should reflect the sustainability performance of the Group as a whole in an impartial manner.	The Group impartially presents environmental, social, and governance issues that significantly impact on the Group's business, including the achievements, impacts, challenges, etc., and formulates a response plan.
Consistency	The Group should confirm that the methodology for preparing the environmental, social and governance report is consistent with those used in previous years, or state the revised reporting methodology or indicate other relevant factors that may affect meaningful comparisons.	The scope of the Report is consistent with the Report presented in the previous year, and the use of consistent statistical methods allows for meaningful future comparisons of environmental, social and governance data. If the methodology used and the scope of the report are changed, we will explain it in the notes for stakeholders' reference.

This Report has been prepared in both English and Chinese and has been uploaded to the Stock Exchange and the Company's website (<http://www.dalipal.com>). In the event of any conflict or inconsistency between the English and Chinese versions, the Chinese version shall prevail.

SUSTAINABILITY GOVERNANCE

The Group comprehends the importance of ESG Report, and we are committed to continuously enhancing corporate social responsibility in our business. The Group is looking forward to incorporating the sustainable development approach into the Group's business development to better respond to the needs of a rapidly changing society.

The Board of Directors and the Risk Management Committee of the Group are fully responsible for and oversee the Group's Environmental, Social, and Governance strategies and reporting. The Board and the Risk Management Committee are responsible for leading the identification, assessment and determination of Environmental, Social, and Governance-related risks of the Group. Meeting from time to time to discuss ESG-related matters, and ensuring that appropriate and effective Environmental, Social, and Governance risk management, internal control and improvement systems are in place to develop effective risk response plans and implement sustainability initiatives. In addition, the Group has appointed Riskory Consultancy Limited as the professional consultant to provide us with ESG and sustainability consulting services to help promote sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

STAKEHOLDER ENGAGEMENT

Stakeholder involvement enables the Group to understand the risks and opportunities of our development. Ongoing communication with stakeholders is important in developing a sustainability strategy. We have identified key stakeholders who are critical to the Group's business and have gathered their views through various communication channels to understand their expectations towards the Company's sustainability, so as to formulate measures to respond to the stakeholders.

Stakeholders	Expectation	Engagement channels	Main measures of response
Government 	<ul style="list-style-type: none"> - Legal compliance - Proper tax payment - Promote regional economic development and employment 	<ul style="list-style-type: none"> - On-site inspections and check - Research and discussion through working meetings, preparation and submission for approval - Disclose information such as annual reports, interim reports and announcements on the website of the Stock Exchange - 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 - Disclose information such as annual reports, interim reports and announcements on the website of the Stock Exchange - Exchange 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 - Work environment - Career development opportunities - Occupational health and safety - Self-actualization 	<ul style="list-style-type: none"> - Regular meetings - Training, seminars and briefing sessions - Intranet & 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectation	Engagement channels	Main measures of response
Clients 	<ul style="list-style-type: none"> – Safe and high-quality products and services – Stable relationships – Transparency of information – Integrity – Business ethics 	<ul style="list-style-type: none"> – Website, brochures, disclose information such as annual reports, interim reports and announcements on the website of the Stock Exchange – Email and customer service hotline – Feedback and reporting – Regular meetings – International certifications 	<ul style="list-style-type: none"> – Strengthened quality management to ensure stable service standards, entered into long-term strategic cooperation agreements and obtained international certifications from professional institutions. – Applied sales management system to optimize sales process, enhanced daily communication and maintained long-term cooperation with quality customers.
Suppliers/ Partners 	<ul style="list-style-type: none"> – Long-term relationship – Honest cooperation – Fair and open – Sharing sources for customised raw material – Risk reduction 	<ul style="list-style-type: none"> – Business meetings, supplier meetings, telephone calls and interviews – Regular meetings – Review and assessment – Tendering process – Emails, circulars and manual – Company website – Open procurement platform 	<ul style="list-style-type: none"> – Invited tenders publicly to select the best supplier and contractors, performed contracts obligation according to the agreements. – Used open procurement platform to advance procurement processes, enhanced day-to-day communication, and built long-term relationships with quality suppliers/business partners.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectation	Engagement channels	Main measures of response
Peer Companies/ Industry Associations and Societies 	<ul style="list-style-type: none"> - Experience sharing - Cooperation - Fair competition 	<ul style="list-style-type: none"> - Industry conferences - Field visits - Standards publicity - Trainings - Seminars 	<ul style="list-style-type: none"> - Adhered to fair competition, cooperated with peers, achieved win-win results, shared experience, participated in various industry seminars to promote sustainable development of the industry.
Market Regulators 	<ul style="list-style-type: none"> - Compliance with laws and regulations - Disclosure of Information 	<ul style="list-style-type: none"> - Disclosure of Information Report - Consultation 	<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.
The Public and Communities 	<ul style="list-style-type: none"> - Community engagement - Social responsibility - Employment promotion - Transparency in consultation 	<ul style="list-style-type: none"> - Volunteer service - Charity and social investment - Press 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; maintain smooth communication channels between the Group and the community. - Issued promote and accurate information.

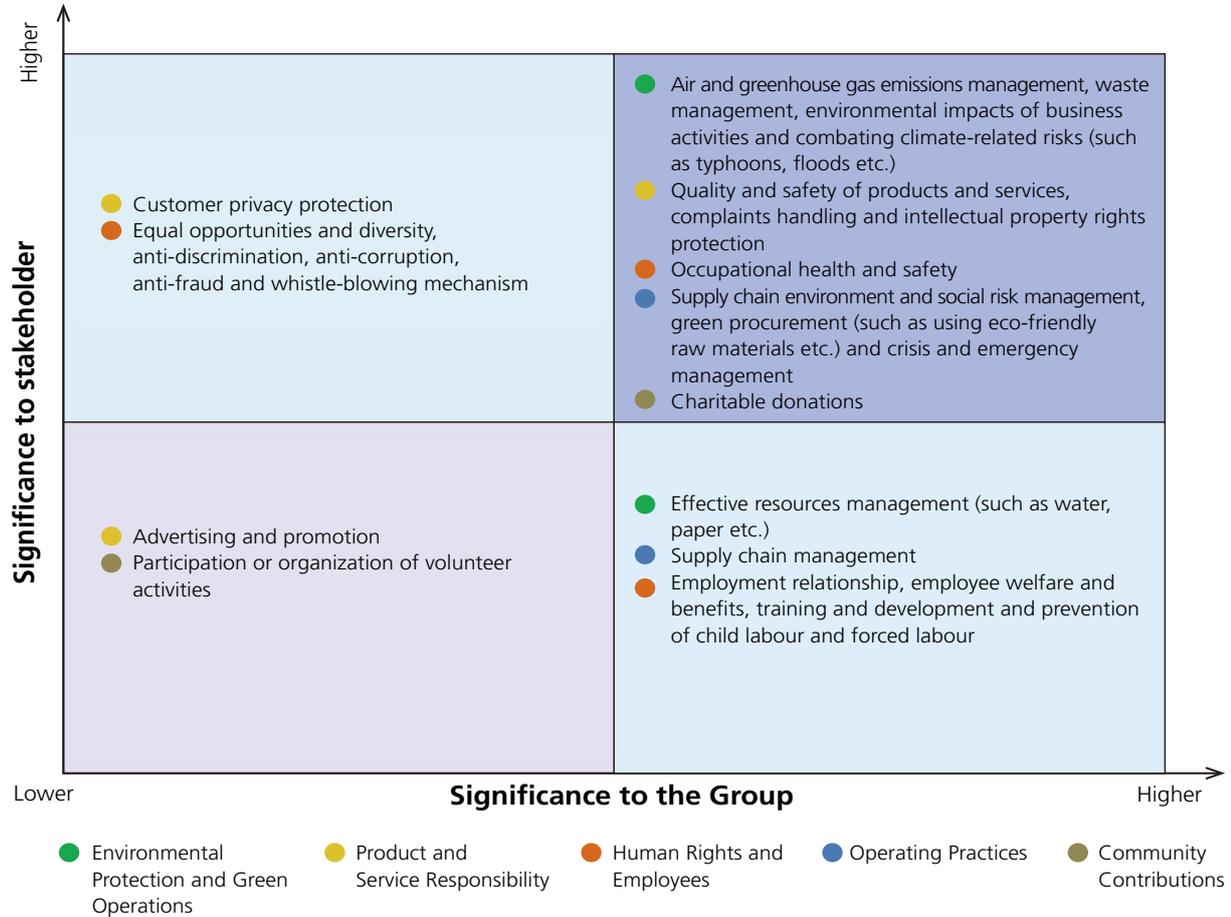
STAKEHOLDER FEEDBACK

We take the valuable comments from our stakeholders very seriously. If you have any questions or comment about this Report or the performance of the Group's environmental and social policies, please email ir@dalipal.com to share your comments and suggestions with us.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MATERIALITY ASSESSMENT

In order to more effectively identify and assess potential ESG issues that have a significant impact on the Group and its stakeholders, after collecting and analyzing data from each stakeholder on the importance of 22 relevant issues, 12 issues that are of most concern to the stakeholders and to the Group have been formed in a matrix as follows:



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

AWARDS AND HONORS IN 2021

- Awarded “Excellent Brand in Hebei Province” by the Hebei Province Trademark Association (“HEBTA”);
- Awarded the honorary title of “2020 Hebei Province Credit Construction Enterprise” and “Trustworthy Enterprises in Hebei Province” respectively by the Hebei Credit Association and Hebei Enterprise Credit Research Institute. The Company is also designated as a member by Hebei Credit Association;
- Ranked 34th place in the “2021 Hebei Province Science and Technology Innovation Patent Top 100 Private Enterprise List” issued by the Hebei Provincial Federation of Industry and Commerce;
- Awarded by Hebei High-Tech Enterprises Association (“HeBHTEA”), ranked 51st place in “2021 Top 100 Innovative Enterprises in Strategic Emerging Industries in Hebei Province”;
- Awarded the honorary title of “Hebei Provincial Intellectual Property Preponderant Enterprise” after reviewing the Company’s intellectual property management conducted by Hebei Administration for Market Regulation;
- Awarded “2020-2021 Annual Proficiency Testing Quality Award” after a comprehensive review by the China NIL Research Center For Proficiency Testing Co., Ltd.;
- Awarded “2021 Hebei Provincial Occupational Health Enterprise” and “2021 Cangzhou Municipal Occupational Health Enterprise” respectively by Health Commission of Hebei Province and Cangzhou; and
- As recognized by the Emergency Management Bureau of Cangzhou Municipality, the Group was awarded the “2021 Cangzhou Municipal Exemplary Enterprise in Safety Culture”.

A. ENVIRONMENTAL ASPECTS

As we become increasingly connected to the environment, the Group understands the importance of pursuing a clean environment and our responsibility as corporate citizens. To reflect the Group’s commitment to sustainable development and compliance with environmental laws and regulations, we strive to innovate, reduce our impact on the natural environment and actively respond to climate change.

The Environmental Protection Concept of Corporate Culture

Our corporate culture has a clear “Environmental Mindset”, the main contents are as follows: (1) Contributing environmental protection by starting with small habits; (2) Adhering to making manufacturing processes eco-friendly, reducing emissions, and achieving waste recycling during industrial processes; (3) Institutionalization on daily management, and normalization on system operation; (4) Environmental protection is not only related to the survival of enterprises, but also regard as the competitiveness of enterprises.

Environmental Emergency Management

During the Reporting Period, through internal high-frequency, high-quality inspection and timely rectification, as well as through trainings, emergency drill etc., we have continuously improved the emergency management mechanism, enhanced the emergency handling capability of environmental incidents, effectively prevented the occurrence of environmental emergencies, and reduced environmental risks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A1. Emissions

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》), Cleaner Production Promotion Law (《清潔生產促進法》), 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. During the Reporting Period, the Group has audited and obtained the ISO14001 environmental management system certification, so as to comply with the national maximum limit allowed for sulfur oxides emission concentration limits and total emissions, which limited the amount of air gases and greenhouse gas emissions generated in the course of the Group's business. The Group did not have any severe violations or compliance with applicable environmental laws and regulations during the Reporting Period.

Air Emissions

The Group's emissions mainly come from particulate matter, sulfur oxides and nitrogen oxides generated by industrial furnaces and equipment in the production process. During the Reporting Period, the Group's various emission standards for particulate matter, sulfur dioxide and nitrogen oxides in various industrial furnaces had reached the ultra-low emission standards of Hebei Province and the permitted discharge level by the Bureau of Ecology and Environment of Cangzhou City, and the air emissions were as follows:

Types of air emissions	Unit	Bureau of Ecology and Environment of Cangzhou City Permitted Discharge	Emissions of the Group during the Reporting Period
Sulfur oxides	tons	15.3	0.1
Nitrogen oxides	tons	48.1	21.5
Particulate matter	tons	56.7	44.2

In order to reduce air emissions in the course of our operations, we have adopted the following technical enhancements:

- Adopt low nitrogen combustion technology on the combustion system;
- Equip advanced adsorption and catalytic combustion technology on the exhausted gas treatment facilities;
- Increase the thickness of the heating furnaces and added flue gas treatment devices to reduce nitrogen oxides emissions;
- Add online monitoring equipment at the main tapping hood of flue gas to achieve continuous pollutant emission monitoring;
- Equip flue gas collection devices in the electric furnace slag tapping hood process to reduce soot and particulate matter emissions;
- Set up wheel washer devices and dust online monitoring devices in the factory and the raw materials import-export area to reduce dust pollution to the atmosphere;
- Equip new pollutant purification and denitrification devices for exhaust gas; and
- Optimize industrial processes to reduce the frequency of in-plant transportation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Greenhouse Gas Emissions

Increased concentrations of greenhouse gases in the atmosphere have strengthened greenhouse effects and gave rise to global average temperatures. Human activities have led to climate change and exacerbated the severity of extreme weather, while global warming has also caused significant negative impacts on human health and the environment. The Group is committed to taking sustainable long-term actions to reduce the Group's greenhouse gas emissions and the carbon footprint of its operations.

This Report focuses on scope 1 and scope 2 greenhouse gas emissions. Scope 1 is direct greenhouse gas emissions from the stationary and mobile fuels combustion owned by the Group. Scope 2 is indirect greenhouse gas emissions from purchased electricity consumed by the Group. Due to the increase in production, the Group's greenhouse gases emission increased compared to last year. However, the unit consumption of electricity, gasoline, and diesel was reduced due to the relevant control measures.

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

Types of greenhouse gas emissions	Unit	In 2021
Scope 1 – Direct emissions	tons of CO ₂ equivalent	89,136.47
Scope 2 – Indirect emissions	tons of CO ₂ equivalent	307,799.50
Total	tons of CO₂ equivalent	396,935.97
Intensity	tons of CO ₂ equivalent/ revenue in million RMB	105.50

As the most significant portion of the Group's carbon footprint comes from purchased electricity, business travel, and vehicles, we have acquired energy-saving equipment to reduce electricity consumption, continued to upgrade internal energy-saving devices, reduce unnecessary travel, consolidate office and accommodation space, etc. We have implemented various measures to reduce the Group's carbon emissions:

- Replace in-plant vehicles with low-emission standards for vehicles with relatively outdated emission standards;
- Upgrade the carrier vehicles in the plant area, use vehicles above The National VI and new energy electric vehicles to reduce carbon dioxide emissions;
- Reuse surplus heat from the production process for production line heating and winter heating to reduce boiler use and carbon dioxide emissions;
- Encourage employees to conduct telephone or videoconferencing instead of face-to-face meetings and advocate shortened meetings;
- Encourages staff to walk as much as possible instead of using transportation for activities with a closer destination;
- Encourage employees to use public transport as much as possible when attending meetings or events, and to use the Group's vehicles or private cars when necessary; and
- Provide commuting buses for employees and rent a shuttle bus to reduce private car traffic, as well as strengthen the greening of the factory area.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Waste Management

With the increasing severity of resource and energy shortages, countries worldwide are paying more attention to waste management and recycling. The Group also recognizes the importance of waste reduction for the Company's sustainable development. Waste management is imperative for employee health, the environment, and in most cases. The Group has established and implemented a number of waste reduction and recycling strategies, revised the environmental protection management system such as pollution production and discharge control, and formulated specific rules and regulations through the operating procedures of the pollution production process, the operation and control of environmental protection treatment equipment, the monitoring of pollutant discharge from waste gas and wastewater, the collection and transfer of solid waste, the monitoring of noise and air pollution, and the environmental protection management responsibility system, forming a systematic environmental protection management system.

There are two main types of waste in the Group's daily operations: (i.) Hazardous waste from the production process (i.e. hazardous or potentially harmful to human health or the environment), mainly involving dust removal ash, waste mineral oil, sludge, waste paint, paint residue, etc.; and (ii.) Non-hazardous waste from production activities such as electric furnace slag, refining slag, iron oxide sheet and waste refractory materials.

During the Reporting Period, in addition to the increase in production, the efficiency of the devices for collecting both electric furnace slag and waste dust increased, and therefore the amount of waste increased accordingly. The amount of waste generated by the Group was as follows:

Types of waste	Unit	In 2021	In 2020
Hazardous waste	tons	9,785.60	5,072.65
Intensity	tons/revenue in million RMB	2.60	2.25
Non-hazardous waste	tons	63,795.10	37,906.31
Intensity	tons/revenue in million RMB	16.96	16.78

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. We appoint a professional waste handling company, which has the qualifications of collecting, storing, treating, and disposing of waste, to handle our hazardous waste.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We are committed to reducing waste generation, formulating an annual management plan, targeting responsibilities and corresponding person-in-charge, strengthening supervision, and advocating the following emission reduction measures:

Technical Optimization Aspect	Waste Management Aspect	Pollutants Treatment Aspect
<ul style="list-style-type: none"> • Complete the modification project of the ultra-low-emission dust removal system for bench of pipe billets, and added a new filter exterior from the dust collector for the slag tapping hood of the electric furnace; • Continue the 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; • Complete the installation of the gas collection covers and dust removal devices within the production line that generates particulate matter. Two sets of volatile organic compounds (“VOCs”) collection devices are implemented additionally; • Equip advanced adsorption and catalytic combustion technology on the exhausted gas treatment facilities; • Upgrade the pollutant monitoring and control system (the control system was changed to an advanced DCS system) to ensure that the monitoring and measurement of pollutants are more accurate; and • Conduct weekly joint inspection of equipment, reduce equipment failure time, implement regular maintenance and preventive maintenance, implement equipment transformation and upgrading to continuously strengthen equipment maintenance management, and prevent running and dripping. 	<ul style="list-style-type: none"> • Adopt water-based paint at spraying process, reduce the numbers of waste paint and thinner buckets; • Use dedicated packaging bag and warehouse to store waste; • Record and manage hazardous waste strictly according to the management requirements; • Improve the technology and use premium material to reduce furnace cinder when producing conventional OCTG; • 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; and • Recycle the metal material. 	<ul style="list-style-type: none"> • The sewage treatment process adopts filtration, adsorption and ultrafiltration; • The sewage is treated by reverse osmosis technique and then recycled as reclaimed water; • Strengthen the dust control in the factory, stipulate the frequency for spraying and dampening the road, and install wheel washing facilities at the site entrances and exits.



Pollutant monitoring and control system



Billet line dust removal system

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A2. Use of Resources

The Group attaches great importance to the efficient use of resources by allocating energy measuring instruments, statistical statements of water, electricity, and other energy, to facilitate the use of resources and allocate resource more effectively. The primary resources used by the Group are electricity, water, and paper. However, due to the nature of the Group's business, the packaging used in the finished products is not applicable. We are committed to improving natural resource use efficiency. We formulated the "Energy Management and Control Procedures, (《能源管理控制程序》)" which has clear guideline on energy testing implementation, evaluation of energy conversion, transmission and distribution and utilization system configuration and operation, and recycling of surplus energy resources.

During the Reporting Period, the Group made every effort to promote carbon emission verification and cleaner production audit, mobilized full participation, solicited 410 no/low fee schemes, and screened and determined 4 medium/high fee schemes. There is a series of transformation and upgrading projects such as "Closure of slag yard for retrofitting", "Plant dust control", "Reclaimed water reuse system", "Smoke and dust denitrification in heating furnace", "Steel material consumption control" and so on, were implemented to promote clean energy substitution during the Reporting Period. These projects improve the level of recycling of scrap steel resources, and implement the all-scrap electric furnace process, effectively realizing the purpose of energy saving, consumption reduction, emission reduction and efficiency increase. At the same time, the Group audited and obtained the ISO50001 energy management system certification in 2021.

In addition, the Group mainly uses natural gas as its main gas fuel and vehicle fuel. During the reporting period, the Group's electricity and gas use increased due to the increase in production, and the detailed energy consumption was as follows:

Types of energy	Unit	In 2021	In 2020
Purchased electricity	GWh	529.78	388.50
Natural Gas	GWh	442.78	302.78
Gasoline	GWh	0.95	0.75
Diesel fuel	GWh	1.31	1.12
Total	GWh	974.82	693.15
Intensity	GWh/revenue in million RMB	0.26	0.31

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Electricity Consumption

Recognizing the importance of conserving electricity and energy, the Group is committed to reducing electricity consumption which will reduce the greenhouse gas emissions indirectly. During the Reporting Period, the Group has encouraged the adoption of electricity conservation measures, including:

- A total of 6 energy-saving renovation projects have been accomplished in air compressors, pumps and other facilities;
- The subsidiary has implemented the operation mode of natural gas and “LNG”;
- Turn off the power when not in use, and arrange irregular inspection on the execution of switching off all the power source in the office;
- Optimize natural daylight at the offices and meeting rooms, left lighting installations switched on for long hours during daytime is prohibited;
- Minimize the general lightings at night;
- Appliances are set to energy saving mode if possible; and
- Formulate an applicable energy usage plan for computers and set the appropriate display brightness.

Water Usage

Water is essential to the Group’s business, and we have managed the water resources accordingly. The Group has not encountered any problems in procuring water resources. Currently, the Group is working on reducing the amount of water used in production processes within the system. In addition, we affixed “water conservation tips” posters in office living areas, restrooms, and pantries to remind employees of proper water usage behavior. At the same time, we implemented an expansion project on the sewage treatment station, which effectively improved its treatment capacity. Among the business operation, raw water consumption has decreased significantly in pipe-making and casting processes. During the Reporting Period, the Group’s water consumption was as follows:

	Unit	In 2021	In 2020
Total water consumption	Cubic meter	735,465.30	816,321.00
Intensity	Cubic meter/revenue in million RMB	195.47	361.30

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Paper

Since reducing the use of paper can indirectly reduce overall greenhouse gas emissions, we have been taking the following steps to reduce paper consumption:

- Encourage the sending and receiving of files through electronic channels and the implementation of electronic document management that significantly reduce the consumption of paper and ink;
- Through the integration of integrated management systems, optimize system processes and records, abolish the printing of paper documents, and significantly reduce on-site records and paper use;
- Use a variety of office software for online office work, reducing paper usage and delivery;
- Reduce paper usage by printing or copying on both sides when appropriate;
- Printing paper is used strictly according to budget plan, and over-budget on printing requires strict approval to reduce paper usage; and
- Encourage employees to customize the appropriate font size/shrink text to fit whenever possible to reduce the number of pages.

The Group will continue to record the use of resources in order to review the effectiveness of conservation measures in the future and to set more improvement measures and targets.

A3. The Environment and Natural Resources

The Group understands that the protection of the environment is an essential responsibility of global enterprises, so the Group complies with all applicable environmental laws and regulations and strives to reduce resource and energy consumption. We have formulated the Energy Control Procedures (《能源控制程序》), Equipment Management Control Procedures (《設備管理控制程序》), Spare Parts Management Measures (《備品備件管理辦法》), Pollution Discharge Permit Management Regulations (《排污許可管理規定》), and Greenhouse Gas Management Regulations (《溫室氣體管理規定》) and obtained the Radiation Safety Permit (《輻射安全許可證》) issued by the Ministry of Ecology and Environment of the People's Republic of China.

We have also developed an environmental monitoring plan and introduced a dynamic pollutant control system to monitor and manage pollutants in real-time, monitor the environmental protection information of transport vehicles, and monitor dust levels in real-time. We also appoint a professional team to conduct regular monitoring of the environmental impact factors such as sewage, exhaust gas, and noise level by the Company, and conduct regular assessments of the Company's natural resources such as soil and air environment, review and assess environmental risks in the business process, review relevant environmental guidelines in operating practices, and adopt and implement necessary preventive or improvement measures in a timely manner. Relevant measures include implementing ultra-low emission standards in Hebei Province, providing professional training to strengthen the knowledge about the environment and safety for employees, communication with suppliers and partners, setting up occupational hazards' notification cards and risk distribution maps in the workplace.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A4. Climate Change

The risks posed on the Group by the intensification of climate change and the increasing frequency of extreme weather cannot be ignored, such as typhoons and floods caused by heavy rains could cause serious impacts on our employees and operations. We understand that protecting the environment and minimizing the adverse effects of our business operations on the environment is the ongoing responsibility of good corporate citizens.

At the 75th session of the United Nations General Assembly, China officially announced that it “strives to achieve carbon peaking by 2030 and strives to achieve carbon neutrality by 2060”. In response to the call of the State, the Group formulated an implementation plan for carbon reduction actions and actively practiced and promoted low-carbon development.

During the Reporting Period, the Group comprehensively identified national and local environmental protection laws and regulations, as well as standard requirements, revised and improved the relevant environmental and energy systems, and completed the training and implementation of responsibilities for all employees, supplemented by normalized operation inspection and evaluation during the operation period to ensure the effective implementation of the relevant systems.

In the Company’s Five-Year Plan for 2023-2027, the Group has stated its commitment to achieve carbon peaking in 2030 and carbon neutrality by 2050, and plans to launch the preparation and advancement work for the Carbon Reduction Action Implementation Plan in 2022, including:

- Establish a sound carbon emission management system and strengthen carbon assets management;
- Keep pace with the trend of R&D, application of cutting-edge low-carbon technologies, and carbon capture technologies, and carry out life cycle assessment and carbon label certification;
- Proactively promote carbon emission verification and cleaner production audits, and promote clean energy substitution;
- Improve the level of scrap steel resources recycling, and implement the all-scrap electric furnace process;
- Introduce advanced technology in a timely manner, delve into the potential of energy conservation to reduce carbon emission and the function of energy conversion, and to promote surplus heat utilization; and
- Focus on the introduction of electric furnace surplus heat power generation, photovoltaic power generation, continuous-charging scrap preheating technology, amoeba residual steel monitoring technology, energy-saving hydraulic servo technology, etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Circular Economy

We are also committed to establishing a green and low-carbon circular development production and operation system, such as the “Scrap Metal Recycling via Electric Arc Furnace” circulation system. An electric arc furnace (EAF) is a heating furnace that heats a material by an electric arc discharge. The production process is mainly to add scrap metal raw materials to the EAF for smelting, which can improve the efficiency of energy use, and can recycle the waste metal from the arc furnace, and re-enter the production line as raw materials, forming a circular economy and further promoting resource recycling, making the production process more environmentally friendly than the general linear production model, thereby reducing the carbon emissions in the production process.



In addition, the Group has amended the Emergency Response Plan for Environmental Emergencies and adopted necessary measures to prevent potential risks to its operations caused by climate change, including but not limited to:

- Optimize the production process, so that the product electricity consumption and natural gas consumption are greatly reduced;
- Reduce the use of carbon-containing raw materials; use frequency conversion energy-saving equipment to effectively reduce energy consumption and carbon emissions;
- Heat treatment furnace increases furnace thickness and flue gas treatment device to reduce nitrogen oxide emissions;
- Regularly maintain waste heat pipes, clean heat exchangers, and increase waste heat utilization efficiency;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Use surplus heat for heating the office living area;
- Promote the use of clean energy, and declare a cleaner production audit project;
- Strictly implement the requirements of heavy pollution weather control and carry out independent emission reduction;
- Greening the factory area by increasing vegetation;
- Encourage green travel and reduce air emissions from private cars;
- Provide commuting buses and electric shuttle buses at the factory site for employees to minimize air emissions from various other vehicles; and
- Use eco-friendly vehicles instead of in-plant vehicles with relatively outdated emission standards.

B. SOCIAL ASPECTS

Corporate Culture

The Meaning of Dalipal

“達力普” is a literal translation of “Dalipal” and means “intimate partner”. “Dalipal” is derived from the combination of the English words “Darling” (intimate) and “Pal” (partner).

Da-Achievement (“達”), which means to achieve high customer satisfaction, give full play to employees’ abilities, express employees’ ideas, wishes, and abilities, and to pursuit the Company’s prosperity;

Li-Strength (“力”), which means to create value for customers, while our products are equipped with high competitiveness, employees are innovative, and the Company is strong;

Pal-Universal (“普”), which means to share with our community inclusively, that is, the Company growth benefits employees, shareholders and the society in general.

The three words of Dalipal are our valued commitments to customers, employees, shareholders and society, which clearly expound the “Connotation” of Dalipal.

Our Corporate Philosophy – “To create value for customers, to create opportunities for employees, to create strength for enterprises, to create harmony for society.”

Since the establishment of the Company, it has always adhered to the philosophy of “Gaining knowledge for cultivating self-mind. Benefiting from the market. Walking the pathway to innovation. Maintaining a good foundation” without wavering. The Company is adhering to the comprehensive “Tackle the gap with benchmarking” continuously. We are committed to doing a good job of “immediate” and focus on what we are doing. We also committed to strengthen the Company’s development and growth, and do everything possible to enhance the ability for risk resilience, in order to build a broader platform for business start-up and a stage that can give full play to everyone’s talent, so as to expand our capacity that truly allows our employees to realize their self-fulfillments. As we believe that employees are connected to and are essential part the enterprise’s strength. “When big rivers have water, the smaller ones are filled”, is our vision of creating greater value for employees and customers, as well as contributing to the realization of a harmonious society. Together with our aspiration of Chinese Dream, are the original intentions and mission of the Dalipal family.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employment and Labour Practices

B1. Employment

The Talent Concept of Corporate Culture – “Horses for Courses. Achieving Meritocracy. Acquiring and Training for the Right Talent. Leading Our Talent to Success.”

Building of a core backbone team that highly recognizes the culture of the Company and consciously practices the Company’s culture is all the time an important strategic task for the survival and development of the Company. We give tolerance for our employees’ faults, allowing mistakes during exploration and innovation. We do not easily give up on any employee, regardless of seniority and qualifications. We treasure not only an employee’s ability and virtue but also their achievements. We believe talents are able to perform duty at any working level and capable to work at different types of job position. We continuously build channels and platforms for talent growth, so as to focus on the career development for our employee. Promotion are standardized but we encourage talents recommendation internally. We persist to perform assessment before hiring, on-going evaluation during employment, and comprehensive actualization after termination of employment. On-site learning and talent promotion are beneficial to cultivating and training employees who act accordingly with the Company culture and gain experience in multiple positions, so as to uphold a mindset to put themselves in the customers’ shoes.

Employees are the most important and valuable asset of the Group. We attach great importance to the word “Pal” in the Group name “Dalipal”, which means “inclusive employees” in our corporate culture. We are committed to protecting the legitimate rights and interests of all employees, paying labour insurance and “five social insurances and one housing fund” (「五險一金」)¹ in accordance with the law, paying wages in full and on time every month, always respecting, recognizing and treating every employee kindly, creating a healthy and safe working environment, creating a warm working atmosphere, providing a platform for talents to grow and develop, so that all employees can grow and develop with us together. The Group strictly complies with relevant laws and regulations, including but not limited to:

Employment Promotion Law of the People’s Republic of China (《中華人民共和國就業促進法》)	Employees’ Compensation Ordinance (《僱員補償條例》)
Law of the People’s Republic of China on the Protection of Persons with Disabled Persons (《中華人民共和國殘疾人保障法》)	Mandatory Provident Fund Schemes Ordinance (《強制性公積金計劃條例》)
Law of the People’s Republic of China on the Protection of Minors (《中華人民共和國未成年保護法》)	Regulations of Hebei Province on Population and Family Planning (《河北省人口與計劃生育條例》)
Social Security Law of the People’s Republic of China (《中華人民共和國社會保障法》)	Labour Law of the People’s Republic of China (《中華人民共和國勞動法》)

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.

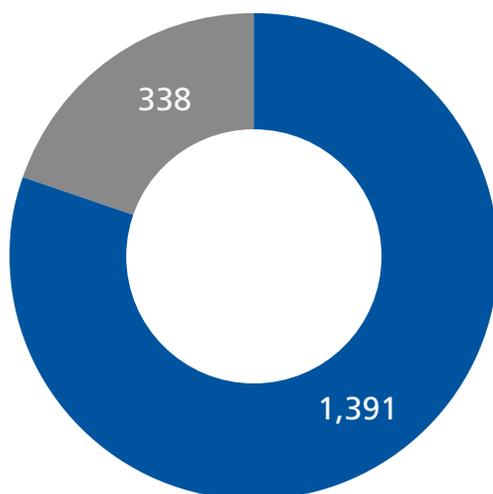
¹ Five social insurances, including pension, medical insurance, unemployment insurance, maternity insurance, and work injury insurance, as well as a housing provident fund.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December 2021, the Group had a total of 1,729 employees (2020: 1,453), 1,726 of them are full-time employees, and 3 of them are part-time or contract employees.

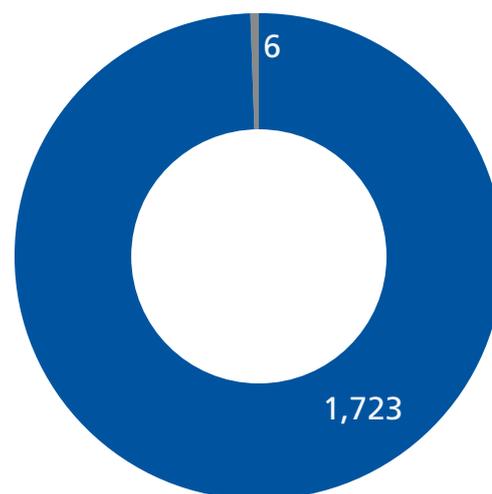
By Gender

■ Male ■ Female



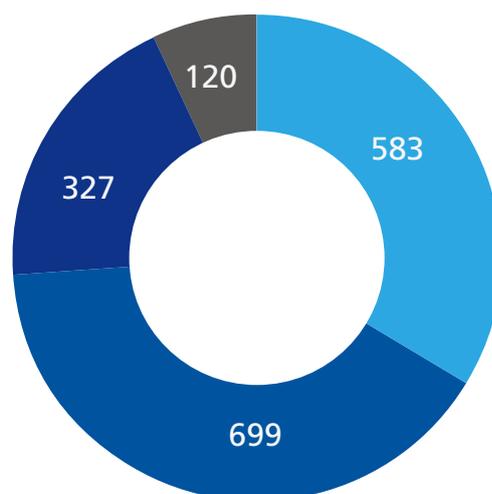
By Geographical Region

■ Mainland China ■ Hong Kong



By Age Group

■ 18-30 ■ 31-40 ■ 41-50 ■ 51 or above



During the Reporting Period, the Group had a turnover rate of 25%, a male employee turnover rate of 26% and a female employee turnover rate of 21% by gender. An employee turnover rate of 47% for employees aged 18-30, 16% for employees aged 31-40, 13% for employees aged 41-50 and 3% for employees aged over 51 by age group. 25% turnover rate for employees from Mainland China and 17% for employees from Hong Kong by geographical region.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 optimization from time to time for talent recruitment. To better manage human resources, the Human Resources Department has formulated policy documents such as the Administrative Measures for the Allocation of Human Resources Flow (《人力資源流動配置管理辦法》), the Specifications for the Management of Labour Contract Management (《勞動合同管理工作規範》), The Implementation Rules for the Management of Work Injury Insurance and Safety Production Liability Insurance (《工傷保險及安全生產責任險管理實施細則》), and the Detailed Rules for the Handling of Labour Disputes (《勞動爭議處理工作細則》). We have built a talent acquisition team through external recruitment, internal training, on-site learning, etc., and analyzed the contribution rate of about 10 various channels, such as WeChat, and Baidu Tieba and others. We have launched professional recruitment websites, such as “51job.com” and “Liepin Talent Acquisition Platform”. Employees are generally required to work under a probationary period of not more than six months from the start date of employment. The Group typically determines the salaries of individual employees based on their experience, position, and seniority according to the remuneration standards established by the Group. The Group has established a performance appraisal system to assess employee performance and constitute a benchmark for our decisions on salary adjustments, bonuses, and promotions. We believe that the above arrangements will help maintain a good relationship with employees.

Remuneration and Benefits

We offer reasonable and competitive salaries and employee benefits to employees, benchmarked with the comparison of salary levels in the same industry and the relevant positions. During the Reporting Period, we revised the “Employee Compensation Management System”. Employees are awarded a salary adjustment and promotion based on their job performance as well as progress achievement and the results of performance appraisal. Salaries are paid on time every month.

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. Timely replacement or maintenance of air conditioners, and continuous improvement of employee accommodation conditions were achieved, such as automatic water dispensers for employee apartment buildings, and the use of mobile phones to recharge water bills at any time.

In terms of holiday benefits, with the amendment of the “Hebei Provincial Population and Family Planning Regulations” (《河北省人口與計劃生育條例》), the company timely adjusted the “Employee Attendance Management Measures” (《員工考勤管理辦法》), such as the extension of maternity leave of 90 days for the third child birth; 15 days of nursery leave for male employees and for families who have obtained fertility indicators. Both parents of infants under the age of three are entitled to 10 days of parental leave each year.

Care for Employees

Festival welfare and staff welfare have also been granted to staff, such as free haircuts by professional hairdressers for employees and their families, provide employee shuttle bus services for employees to commute, and we also provide employees with living and other subsidies, including:

- Allowances for working in high temperatures;
- Front-line staff subsidies;
- Team leader allowance;
- Skills allowance;
- Technician subsidies; and
- Certified safety engineer certificate subsidy.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We also organize regular staff activities to facilitate interaction among staff and enhance their sense of belonging. During the Reporting Period, we organized a series of activities such as Chinese New Year's Eve Night Activities, Women's Day Blessing Activities, Qixi Joy Festival, Red Movie Watching, 23rd Anniversary Factory Celebration, Round the Factory Running Competition, Tug-of-War Competition and so on, to enrich the lives of employees.



Mid-Autumn Festival Benefits



Qixi Joy Festival



23rd Anniversary Factory Celebration



Mid-Autumn Festival Benefits



Running Competition
Around the Factory



Tug of War

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.

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.

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Employee 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. We also organized a satisfaction survey about canteen meal every quarter to continuously improve the quality of catering services. At the same time, we regularly organize symposiums for college students and employees to care for employees' work, life, and other aspects.



Pollutant monitoring and control system



Billet line dust removal system

B2. Health and Safety

The Safety Concept of Corporate Culture – “Safety First. Prevention is Crucial. Get involved. Caring for Life.”

We always believe that safety is more important than development which we persist that safety management should has no blind spots. It is better to do more than enough to prevent the incident happen. It is responsible for everyone to prevent the “three violations”, which are to cultivate good behavior habits, to be alerted to discoverer and rectifier of potential safety hazards, and to avoid the fluke mentality. To create an atmosphere of being responsible for safety is to be responsible for oneself, for the family, for the enterprise, and for the society.

The Group complies with laws and regulation included but not limited to the Law of the People’s Republic of China on Work Safety (《中華人民共和國安全生產法》), the Law of the People’s Republic of China on the Prevention and Control of Infectious Diseases (《中華人民共和國傳染病防治法》), the Law of the People’s Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》). We strive to ensure a good and safe working environment for employees to prevent injury and disease. We manage the safety of our employees and production areas in accordance with the relevant occupational health and safety laws and regulations. During the Reporting Period, the Group did not violate the relevant laws and regulations in providing a safe working environment and preventing employees’ work injuries.

During the Reporting Period, the Group had no severe safety incidents or fatalities. However, there was 627 lost days (2020: 214 days) mainly due to minor injuries caused by improper operation of machinery and equipment failure. The statistics for the last three years were as follows:

Statistical Indicators	Unit	In 2021	In 2020	In 2019
Number of work-related fatalities	person	0	0	0
Rate of work-related fatalities	percentage	0	0	0

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Work Safety

By considering all possible precautions, we strive to set standards and measures for the highest safety and health performance and to enhance the safety awareness of our staff in order to achieve a work environment with zero accidents, including:

- Improve the construction of occupational health and safety management system, implement occupational health and safety management responsibilities, and improve the occupational health and safety management system;
- Conduct one-on-one safety education and training for employees before work;
- Occupational health examinations were carried out for 769 employees, and the “Notification of Occupational Health Examination Results” was signed by the employees;
- Establish employee occupational health monitoring management files, with 100% establishment rate;
- Regular inspection of special equipment, accessories and firefighting equipment with 100% inspection rate;
- The training and drill of accident emergency response plans at all levels were completed at a rate of 100% on schedule;
- Promote the sampling verification of joint inspection of safety management;
- Cultivate a safety culture, continue to carry out safety team construction, hold emergency drills, and carry out “Safety Month” activities, such as: safety slogan collection, educational video about safety hazards; and
- Organize training on occupational health laws and regulations and related knowledge for the heads of branches/departments, section chiefs, operation chiefs and on-site safety personnel.



Consolidate safety knowledge and closed-book examinations for all employees



Safety Month speech contest



Safety joint inspections

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We have obtained GB/T24001-2016 environmental management system certification, GB/T45001-2020 Occupational health and safety management system certification, Q/SY1002.1-2013 HSE system certificate by China National Petroleum Corporation. Employees should attend formal operation, regular training, safety checks and testing before work. At the same time, we have formulated more than 30 health and safety-related management systems, including but not limited to:

- Regulations on the administration of safety education and training;
- Occupational health and safety operation procedures;
- Regulations on the management of risk control and control of production safety;
- Occupational health management regulations;
- Fire safety management regulations;
- Site environmental management measures; and
- Measures for the management of labour protective equipment, etc.

We implemented and improved on-site noise control measures, including but not limited to 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, configure noise detectors in the workshop to regularly monitor the noise level and implement control measures in a timely manner,.

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.

During the reporting period, the company passed the "Evaluation Guidelines for the Construction of Corporate Safety Culture" (AQ/T 9005-2008) (《企業安全文化建設評價準則》) and was rated as "2021 Cangzhou Municipal Safety Culture Demonstration Enterprise". The company carried out occupational health-related work in accordance with the "Implementation Plan for the Establishment of Occupational Health Enterprises in Hebei Province in 2021" (《河北省2021年創建職業健康企業實施方案》) and was awarded the title "2021 Hebei Provincial Occupational Health Enterprise".

Pandemic Prevention and Control

In early 2020, after the outbreak of the COVID-19 pandemic, the Group adopted a series of prevention and control measures in accordance with the requirements of the Government, including providing masks for employees and setting up disposable masks garbage bins, comprehensively disinfecting the factory building, disinfecting office areas and residential premises on a daily basis, requiring employees to sit diagonally during meals in the canteen, and setting up security guard at the gate 24-hourly to supervise mask wearing, health codes presentation, body temperature checking and registration for employees and visitors. We also set up medical observation rooms and purchase pandemic prevention materials, provide food and water delivery and other services for employees during the quarantine period. At the same time, we actively coordinate with doctors from Huanghua Municipal People's Hospital and Nandagang Hospital to vaccinate more than 500 employees in the Company.

During the Reporting Period, the Group was recommended by the Community Social Affairs Management Department to apply for a provincial occupational health enterprise award in recognition of our determination and performance in protecting the safety and health of our employees.

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B3. Development and Training

The Group recognizes 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. We formulated the Regulations on the Management of Employee Training and the Code of Work for The Implementation of Training Organizations. 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.

During the Reporting Period, a total of 1,586 employees attended the training by the Group, with a total number of attendance of 3,944, for a total of 33,440 hours. The following is a table of training statistics by employee types:

	Percentage of employees trained	Average training hours
By gender		
Male ²	106%	15
Female	34%	39
By employee category		
Senior management	91%	273
Middle management	79%	207
Others	92%	13

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.

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.

Meanwhile, we introduced a professional team to conduct talent inventory and evaluation of the Company's middle and other management, formulated a talent development plan, evaluated 75 middle and other management and benchmarked with the Company's management ability standards to interpret and analyze the advantages, deficiencies and development directions of management in terms of management skills, management personality, business reasoning ability, competence and sense of alliance. The Group continuously evaluates the available human resources and determines whether additional personnel are required to complement the Group's future business development.

During the Reporting Period, the Human Resources Department organized 70 middle and other management to conduct interactive training on talent management cases, including the selection and training of basketball players, case analysis and group discussion. These could significantly reach a consensus on the selection and training of talents in the future, and show the purpose of the Company's talent management project.

² Since the number of trainees was the number of employees who had attended training during the Reporting Period, including the number of employees who had left the company during the Reporting Period, so the male training rate exceeded 100 percent.

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The training courses conducted during the Reporting Period mainly included:

- New employee orientation;
- Business etiquette training;
- Company policies and procedures training;
- Safety education and management system training, stipulating the training basis for production safety and related laws and regulations;
- Annual emergency drills, occupational health, fire safety and safety management training;
- Equipment management training and energy management training;
- Quality and safety control training;
- A series of trainings on integrated management system standards, internal auditors and internal control standards;
- Occupational technique competition, and
- Probity and self-discipline training.



Occupational technique competition



Interactive talent management training

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 Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》), the Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》), the Employment Ordinance (《僱傭條例》) of Hong Kong and other relevant labour laws and regulations. The Group has established the Administrative Policy for the Allocation of Human Resources, which prohibits the employment of child labour and forced labour, and systematically manages the recruitment needs from the admission, regularization, transferal, and termination of employee contacts. Employees are required to present their identification documents for verification purposes when on board and only employees with legal age could be hired. Employment contracts and other records, including all relevant details of the employees are maintained properly for verification by relevant statutory body upon request. In case of any irregularities, we will promptly investigate, punish or dismiss relevant personnel and verify with the judicial authorities 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.

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Operating Practices***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 recognized 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, such as Procurement Control Procedures and the Supplier Management Policy, to clarify and improve the material classification and evaluation requirements of the quality assurance system, including but not limited to product quality, labour standards, environmental and quality management, and ethical business ethics. We formulate green procurement policies, give priority procurement to products with level II energy efficiency or above, and products with energy conservation and protection certification labels. Our procurement system collects and establishes supplier files and credit, dynamically controls the classification of different materials and suppliers, further clarifies responsibilities, and ensures that supplier files are not leaked. At the same time, we require our suppliers to use recyclable packaging materials. We also check the radioactivity of the main ingredients for each batch before they are stored. We strive to work only with suppliers who share and are willing to act in accordance to our principles.

During the Reporting Period, the Group had a total of 101 major qualified suppliers (2020: 80), all of which were located in Mainland China, and 67 key suppliers were assessed during the Reporting Period, including supply quality, delivery time and service quality.

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. If a supplier does not pass the preliminary examination or the product does not meet the required requirements, we will re-evaluate and continuously update the list of approved suppliers based on the assessment.

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 materials supplied by the suppliers must meet the requirements of national local safety, environmental protection, fire protection, occupational health, intellectual property rights, etc. The delivery vehicles must meet the safety and environmental protection requirements. Before entering the factory area, they must understand and obey the Company's relevant safety and environmental protection regulations. 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.

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B6. Product Responsibility

The Quality Concept of Corporate Culture – “Every single product is produced for our clients and the market, which creates and represents our brand.”

To have the courage to pursuit excellence, genuine and demanding standards of high quality, as we believe that it is the essence of an enterprise. Quality control is to be adopted by full engagement in every step in the whole process, which we insist “zero tolerance” to quality below standard. Therefore, we believe high quality standard represent Dalipal which is achieved by our employees.

The Service Concept of Corporate Culture – “Always put ourselves in customers’ shoes and create value-added services for users.”

Quality Assurance

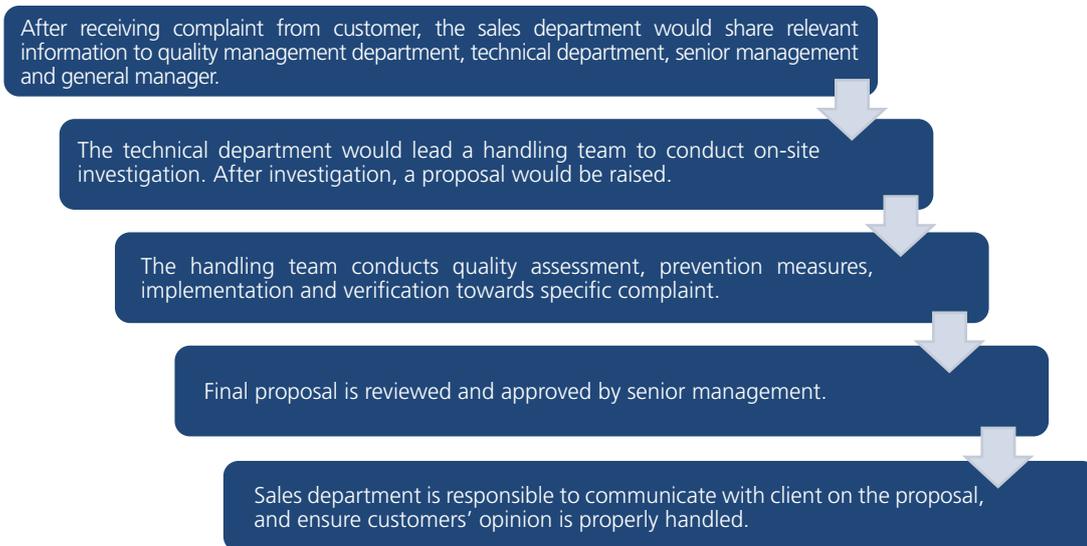
The Group endeavours to offer high-quality products and services. We are committed to improve our product quality, attract new customer and strengthen the relationship with existing customers. We have established a comprehensive quality assurance system. The Group has set up a competent comprehensive quality control department, which implements product quality standards in strict compliance with customers’ requirements. During the Reporting Period, the Group had no violation record on relevant laws and regulations relating to quality assurance issues.

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 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) in recognition of our efforts in product safety and health. We are committed to ensuring compliance with laws and regulations on product health and safety, labelling and privacy matters, including the Product Quality Law of the People’s Republic of China (《中華人民共和國產品質量法》), the Civil Code of the People’s Republic of China (《中華人民共和國民法典》) and the Hong Kong Personal Data (Privacy) Ordinance (《香港個人資料(私隱)條例》). Policies regarding product quality and safety, as well as compliance with laws and regulations, have been clearly stated to employees and suppliers. During the Reporting Period, we achieved 99 points for the overall customer satisfaction rate, and we had no violation record on relevant laws and regulations that have a significant impact on the Group relating to product responsibility issues.

Complaint Handling

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. The processing process and feedback provision are as follows:



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During the Reporting Period, there is no products and services related complaints received and there is no product recall for health and safety problems. In order to effectively control product quality, we have formulated the Quality Emergency Plan Control Procedure (《質量應急預案控制程序》), which clearly stipulates the management of unexpected events related to product delivery, such as post-evaluation and recycling procedures.

Privacy Protection

The Group takes privacy issues of our customers, internal employees, data, and external partners and suppliers very seriously. We have established Confidentiality Management Policy (《保密管理制度》) and the Management Rules of Confidential Personnel (《涉密人員管理細則》), clarifying the list of confidential matters, the list of key confidentiality parts and the list of key confidentiality personnel, as well as showing the Group's commitment to uphold privacy protection through the following measures:

- Identify confidential information and adopt confidentiality labelling when presenting and transmitting documents in the business system;
- Publish electronic exercises to employees about the education of privacy protection knowledge;
- Conduct IP background checks on employees;
- Require new employee to sign non-disclosure and non-competition agreements;
- Require business partners to sign non-disclosure agreements, while outsourcing staff must attend confidentiality training before entering the factory;
- Post confidentiality labels in confidentiality-sensitive areas, where outsourcing staff must enter or exit with approval and documentation; equipment with functions such as audio recording, video recording, photography, and information access are prohibited for all outsourcing staff;
- Strictly control the scope of confidentiality and avoid public access, and;
- Enquiry in relation to the Company's business confidential information shall not be answered or presented arbitrarily.

In addition, 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 unauthorized personnel is prohibited and could result in disciplinary action, up to and including termination of employment.

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Intellectual Property Rights

The Group strives to safeguard and protect intellectual property rights. We have passed the certification of intellectual property management system and established intellectual property management policies, such as “Intellectual Property Rights Management Control Procedures” (《知識產權管理控制程序》) and “Intellectual Property Rights Operation Control Procedures” (《知識產權運行控制程序》). 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 the reporting period, we were awarded the “Excellent” title by the Hebei Administration for Market Regulation (河北省市場監督管理局) in recognition of the Group’s efforts in protecting intellectual property rights.

As of December 31, 2021, the Company has obtained a total of 73 authorized patents. During the Reporting Period, the Group applied for 5 patents and 14 patents were authorized. At the same time, our project “Key Technology Development and Industrialization of High-performance Steel Pipeline” (《高性能管線鋼管關鍵技術開發及產業化》) were successfully in the Hebei Province Department of Science and Technology (河北省科學技術廳). We also completed scientific and technological achievements evaluation for the “Development and Application for the Use of Non-Existent API Tubing Key Technology in Natural Gas Drilling” (《天然氣鑽採用非API油套管關鍵技術開發及應用》), while partial results have reached the international leading level and reached the international advanced level in general.

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 Management Policy” (《反舞弊管理制度》) and “Practice for Professional Integrity for Employees” (《員工廉潔從業規定》) 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》), Criminal Law of the People’s Republic of China (《中華人民共和國刑法》), the Prevention of Bribery Ordinance (香港法例第201章《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.

Commitment to Integrity

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” (《員工廉潔自律承諾書》), register and renew the “Sensitive Positions and Employees Information Form” (「敏感崗位及從業人員信息表」) every six months. “Probity Commitment” (《廉潔協議》) 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.

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Whistle-blowing Policy

The Group sets up whistle-blowing channel to encourage employees, suppliers and clients to raise concerns about fraud, corruption and bribery in confidence, through hotlines, mail and electronic media communications. We have established an “Anti-Corruption Whistle-blowing” program in corporate WeCom to alert users towards suspected misconduct, malpractice or irregularities. 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. All reported cases are promptly and thoroughly investigated by the Group’s internal audit department and reported to the Audit Committee and the Board.

Complainants and whistle-blowers are protected in assisting in investigations. The Company prohibits any unlawful discrimination or retaliation, or hostile measures against employees involved in the investigation. Personnel who leak information on whistle-blowers or retaliate against whistle-blowers in violation of regulations shall be deemed to have seriously violated the Company’s regulations and will be dismissed and terminated from their employment contracts. Where laws are violated, the case will be reported to the judiciary in accordance with law. If there is sufficient evidence to prove possible acts of corruption, the case will be reported to the relevant local authority.

Anti-corruption Training

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. Internal Audit Department publishes integrity education articles every month and organizes various studies among departments. We will continue to fight corruption and bribery to eliminate dishonest act in business.

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. 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.

Community

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:

- Jointly organize a variety of activities, such as pairing interaction group, “Healthy China Initiative” and constitutional publicity activities among enterprises, online teaching about occupational health and safety, with Cangzhou Bohai New Area Federation of Trade Unions;
- Conduct research according to the Company’s recruitment needs and adjust the recruitment requirements for certain positions;
- Recruit through the recruitment website of Bohai New Area every month, and encourage referral recruitment by existing internal staff; and
- Participate with 1,120 people in the “One-Day Donation for Employees and Staff” activity organized by the Cangzhou Bohai New Area Federation of Trade Unions.

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We believe that through community investment, a socially responsible corporate culture and practice can be nurtured in the Group and seek to make contributions to programmes that have a positive impact on community development. We organize studies of “The Amendment to the Criminal Law” (《刑法修正案》) and safety rules and regulations of local governments for employees, as well as continue to participate in other community engagement activities:

- Actively organize education activities such as safety month and fire protection month;
- Carried out celebration activities for the 23rd anniversary of the factory, live broadcasted flag-raising activities in 2 additional locations, and other birthday celebration activities for the Company;
- In response to the government of Bohai New Area, we organized voluntary tree planting in spring, 60 people participated and planted 450 tree sprouts, with a greening area of about 1,300 square meters;
- Donation of anti-epidemic items to help control the pandemic; and
- Open to the public the group’s internal table tennis, basketball, football and other sports activities venues.



Voluntary tree planting in spring

At the same time, we attach importance to national security and hence we organized relevant education and publicity activities. During the Reporting Period, we organized historical education of the Party, including revisiting the admission oath of the Party, watching Ceremony Marking the Centenary of the Communist Party of China, and organizing leisure and cultural activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

Subject Area	Content	Section
Mandatory Disclosure Requirements		
Governance Structure	A statement from the board containing the following elements: (i) a disclosure of the board's oversight of ESG issues; (ii) the board's ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses); and (iii) how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses.	Sustainability Governance
Reporting Principles	A description of, or an explanation on, the application of the Reporting Principles (Materiality, Quantitative and Consistency) in the preparation of the ESG report.	Reporting Principles
Reporting Boundary	A narrative explaining the reporting boundaries of the ESG report and describing the process used to identify which entities or operations are included in the ESG report.	About this Report, Reporting Period, Reporting Scope and Reporting Basis
'Comply or explain' Provisions		
A. Environmental Aspects		
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
A1.1	The types of emissions and respective emissions data.	Emissions
A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity.	Emissions
A1.3	Total hazardous waste produced and, where appropriate, intensity.	Emissions
A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Emissions
A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions and Use of Resources
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

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Subject Area	Content	Section
A2 Use of Resources		
General Disclosure	Policies on the efficient use of resources.	Use of Resources
A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources
A2.2	Water consumption in total and intensity.	Use of Resources
A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources
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
A2.5	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Due to the nature of the Group's business, the packaging used in the finished products is not applicable.
A3 The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	The Environment and Natural Resources
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Emissions, Use of Resources and The Environment and Natural Resources
A4 Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
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
B. Social Aspects		
Employment and Labour Practices		
B1 Employment		
General Disclosure	Information on: (a) 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
B1.1	Total workforce by gender, employment type, age group, and geographical region.	Employment
B1.2	Employee turnover rate by gender, age group and geographical region.	Employment

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Area	Content	Section
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
B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Health and Safety
B2.2	Lost days due to work injury.	Health and Safety
B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Health and Safety
B3 Development and Training		
General Disclosure	Policy on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Development and Training
B3.1	The percentage of employees trained by gender and employee category.	Development and Training
B3.2	The average training hours completed per employee by gender and employee category.	Development and Training
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
B4.1	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
B4.2	Description of steps taken to eliminate such practices when discovered.	Labour Standards
Operating Practices		
B5 Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
B5.1	Number of suppliers by geographical region.	Supply Chain Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Area	Content	Section
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, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
B6.2	Number of products and service-related complaints received and how they are dealt with.	Product Responsibility
B6.3	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility
B6.4	Description of quality assurance process and recall procedures.	Product Responsibility
B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility
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
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
B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Anti-corruption
B7.3	Description of anti-corruption training provided to directors and staff.	Anti-corruption
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
B8.1	Focus areas of contribution.	Community Investment
B8.2	Resources contributed to the focus area.	Community Investment

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 89 to 151, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021 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**

The Group's revenue is principally generated from the manufacture and sale of oil country tubular goods, special seamless steel pipes and pipe billets.

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.

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.

Our audit procedures to assess the timing of revenue recognition included the following:

- 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 customers' sales contracts, on a sample basis, 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;
- Comparing, on a sample basis, 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 2021 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 recorded a net operating cash outflow of RMB286,306,000 for the year ended 31 December 2021. As at 31 December 2021, the Group has outstanding interest-bearing borrowings of RMB1,816,926,000, which were due within the next twelve months. In view of the volatility of operating environment, the Group has been closely monitoring its liquidity requirements and financial position to ensure that it maintains ability to continue as a going concern. 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, special seamless steel 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 forecasted sales volumes, average selling prices, raw materials costs and necessary capital expenditure for oil country tubular goods, special seamless steel 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;
- assessing sensitivity analyses of the key assumptions (including forecasted 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

21 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOMEFor the year ended 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Revenue	4	3,762,629	2,259,402
Cost of sales		(3,345,114)	(2,155,002)
Gross profit	4(b)	417,515	104,400
Other income	5	21,232	16,733
Selling expenses		(98,518)	(51,580)
Administrative expenses		(121,635)	(116,639)
Profit/(loss) from operations		218,594	(47,086)
Finance costs	6(a)	(118,839)	(97,044)
Profit/(loss) before taxation	6	99,755	(144,130)
Income tax	7	(16,816)	26,226
Profit/(loss) for the year		82,939	(117,904)
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		(1,555)	(985)
Total comprehensive income for the year		81,384	(118,889)
Profit/(loss) for the year attributable to:			
Equity shareholders of the Company		82,939	(116,417)
Non-controlling interests		–	(1,487)
Profit/(loss) for the year		82,939	(117,904)
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		81,384	(117,402)
Non-controlling interests		–	(1,487)
Total comprehensive income for the year		81,384	(118,889)
Earnings/(loss) per share	10		
Basic (RMB)		0.06	(0.08)
Diluted (RMB)		0.06	(0.08)

The notes on pages 96 to 151 form part of these financial statements. Details of dividends payable to equity shareholders of the Company are set out in Note 23(d).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Non-current assets			
Property, plant and equipment	11	1,873,900	1,922,593
Deferred tax assets	21(b)	–	19,254
		1,873,900	1,941,847
Current assets			
Inventories	13	779,594	494,951
Trade and bills receivables	14	1,518,690	752,695
Prepayments, deposits and other receivables	15	27,690	83,017
Cash at bank and on hand	16	551,612	416,173
		2,877,586	1,746,836
Current liabilities			
Trade and bills payables	17	693,313	319,246
Other payables and accruals	18	223,357	159,335
Interest-bearing borrowings	19(a)	1,816,926	1,479,052
Lease liabilities		962	151
Current taxation	21(a)	–	9,276
		2,734,558	1,967,060
Net current assets/(liabilities)		143,028	(220,224)
Total assets less current liabilities		2,016,928	1,721,623
Non-current liabilities			
Interest-bearing borrowings	19(b)	650,300	443,200
Lease liabilities		241	–
Deferred tax liabilities	21(b)	5,723	–
Deferred income	22	14,125	15,842
		670,389	459,042
NET ASSETS		1,346,539	1,262,581

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
CAPITAL AND RESERVES	23		
Share capital		134,362	134,263
Reserves		1,212,177	1,128,318
Total equity attributable to equity shareholders of the Company		1,346,539	1,262,581
Non-controlling interests		–	–
TOTAL EQUITY		1,346,539	1,262,581

Approved and authorised for issue by the board of directors on 21 March 2022.

Meng Fanyong
Chairman

Gan Shuya
Director

The notes on pages 96 to 151 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

(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		
	Note 23(b)	Note 23(c)(i)	Note 23(c)(ii)	Note 23(c)(iii)	Note 23(c)(iv)				
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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021

(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Capital reserve	Other reserves	Exchange reserve	Retained profits	Total equity
	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 2021	134,263	159,130	5,866	534,108	(118)	429,332	1,262,581
Changes in equity for 2021:							
Profit for the year	-	-	-	-	-	82,939	82,939
Other comprehensive income	-	-	-	-	(1,555)	-	(1,555)
Total comprehensive income	-	-	-	-	(1,555)	82,939	81,384
Shares issued under share option scheme	99	1,224	(854)	-	-	-	469
Equity settled share-based transactions (Note 20)	-	-	2,105	-	-	-	2,105
Appropriation to reserves	-	-	-	9,774	-	(9,774)	-
	99	1,224	1,251	9,774	-	(9,774)	2,574
Balance at 31 December 2021	134,362	160,354	7,117	543,882	(1,673)	502,497	1,346,539

The notes on pages 96 to 151 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Cash flows from operating activities			
Profit/(loss) before taxation		99,755	(144,130)
Adjustments for:			
Depreciation expenses	6(c)	124,122	119,883
Finance costs	6(a)	118,839	97,044
Interest income	5	(2,097)	(5,141)
Net loss on disposal of property, plant and equipment	5	308	2,123
Amortisation of deferred income	22	(1,717)	(1,717)
Equity-settled share-based payments	6(b)	2,105	4,078
Changes in working capital:			
Increase in inventories		(284,643)	(54,320)
(Increase)/decrease in trade and bills receivables		(765,995)	161,935
(Increase)/decrease in prepayments, deposits and other receivables		(635)	18,211
Increase in trade and bills payables		374,067	38,502
Decrease in other payables and accruals		68,171	25,887
Net (increase)/decrease in restricted deposits	16(a)	(17,471)	134,600
Cash generated from operations		(285,191)	396,955
Income tax paid	21(a)	(1,115)	(22,117)
Income tax refunded	21(a)	–	1,461
Net cash (used in)/generated from operating activities		(286,306)	376,299
Cash flows from investing activities			
Payments for acquisitions of property, plant and equipment		(84,664)	(106,118)
Proceeds from disposal of property, plant and equipment		56,239	41
Interest received		2,097	5,141
Net cash used in investing activities		(26,328)	(100,936)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

For the year ended 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Cash flows from financing activities			
Proceeds from issuance of shares	23(b)	469	–
Proceeds from bank and other interest-bearing borrowings	16(b)	2,225,064	1,220,022
Repayment of bank and other interest-bearing borrowings	16(b)	(1,680,090)	(1,500,477)
Capital element of lease rentals paid	16(b)	(792)	(944)
Interest element of lease rentals paid	16(b)	(55)	(36)
Dividends paid		–	(135,907)
Distributions paid by a subsidiary of the Group		–	(1,248)
Acquisition of non-controlling interests		–	(11,432)
Interest paid	16(b)	(113,092)	(103,596)
Net cash generated from/(used in) financing activities		431,504	(533,618)
Net increase/(decrease) in cash and cash equivalents		118,870	(258,255)
Effect of exchange rate changes on cash and cash equivalents		(902)	(1,592)
Cash and cash equivalents at the beginning of the year	16(a)	312,220	572,067
Cash and cash equivalents at the end of the year	16(a)	430,188	312,220

The notes on pages 96 to 151 form part of these financial statements.

NOTES TO THE 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"), special seamless steel 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 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 the Group's financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group.

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

The Group recorded a net operating cash outflow of RMB286,306,000 for the year ended 31 December 2021. As at 31 December 2021, the Group has outstanding interest-bearing borrowings of RMB1,816,926,000, which were due within the next twelve months. In view of the volatility of operating environment, the Group has been closely monitoring its liquidity requirements and financial position to ensure that it maintains ability to continue as a going concern.

NOTES TO THE 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 2022. From 1 January 2022 to the date of authorisation of the financial statements, the Group has renewed bank borrowings of RMB150,800,000. 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 2022; 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 2022 prepared by management, which has taken into account the fact 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 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:

- Amendment to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(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 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 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 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 rent concessions that occurred as direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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 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 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 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 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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

– 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 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)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost using the effective interest method and including an allowance for credit losses (see Note 2(h)).

Insurance reimbursement is recognised and measured in accordance with note 2(q).

(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 FINANCIAL STATEMENTS (CONTINUED)

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

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(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 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 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(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 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 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 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 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 FINANCIAL STATEMENTS (CONTINUED)

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

The Group is principally engaged in the development, manufacture and sale of OCTG, special seamless steel 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:

	2021 RMB'000	2020 RMB'000
Sales of OCTG	1,674,047	1,060,130
Sales of special seamless steel pipes	1,896,426	714,910
Sales of pipe billets	192,156	484,362
	3,762,629	2,259,402

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

	2021 RMB'000	2020 RMB'000
Customer A	483,588	245,528
Customer B	472,524	485,283
Customer C	*	236,500

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

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

(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.
- Special seamless steel pipes: this segment includes primarily the manufacture and sale of special seamless steel 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 2021 and 2020. 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 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 2021 and 2020 is set out below:

	2021			
	OCTG RMB'000	Special seamless steel pipes RMB'000	Pipe billets RMB'000	Total RMB'000
Revenue from external customers	1,674,047	1,896,426	192,156	3,762,629
Reportable segment gross profit	251,308	167,500	7,595	426,403

	2020			
	OCTG RMB'000	Special seamless steel 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

(ii) Reconciliation of reportable segment gross profit

	2021 RMB'000	2020 RMB'000
Reportable segment gross profit (Note 4(b)(i))	426,403	166,352
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the COVID-19 pandemic	(8,888)	(61,952)
Reportable segment gross profit derived from the Group's external customers	417,515	104,400

NOTES TO THE 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:

	2021 RMB'000	2020 RMB'000
Mainland China	3,401,670	2,070,767
Overseas:		
Thailand	245,263	8,234
Oman	39,927	19,183
Australia	31,710	8,924
Gabon	16,690	35,788
Egypt	11,562	48,266
Turkmenistan	–	48,302
Others	15,807	19,938
	360,959	188,635
	3,762,629	2,259,402

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

	2021 RMB'000	2020 RMB'000
Government grants (including amortisation of deferred income, see Note 22)	5,175	18,154
Interest income	2,097	5,141
Net loss on disposal of other property, plant and equipment	(308)	(2,123)
Net foreign exchange loss	(277)	(3,244)
Net gains on sale of scraps raw materials	15,110	85
Others	(565)	(1,280)
	21,232	16,733

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2021 RMB'000	2020 RMB'000
Interest expenses on borrowings	98,427	90,060
Interest expenses on lease liabilities	55	36
Cash discounts	1,685	–
Others	18,672	6,948
	118,839	97,044

(b) Staff costs[#]

	2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits	178,820	153,923
Contributions to defined contribution retirement plan	10,513	7,604
Equity-settled share-based payment expenses (Note 20)	2,105	4,078
	191,438	165,605

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 Profit/(loss) before taxation (CONTINUED)**(c) Other items**

	2021 RMB'000	2020 RMB'000
Depreciation expenses# (Note 11)		
– owned property, plant and equipment	117,522	113,228
– right-of-use assets	6,600	6,655
Impairment losses reversed on trade receivables (Note 14(b))	(1,746)	(2,995)
Impairment losses on prepayments and other receivables (Note 15)	106	2,689
Auditors' remuneration		
– audit services	2,200	2,242
– non-audit services	800	800
Research and development costs	25,223	24,983
Cost of inventories# (Note 13(b))	3,336,226	2,093,050

Cost of inventories include RMB207,623,000 (2020: RMB150,398,000) 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:**

	2021 RMB'000	2020 RMB'000
Current taxation (Note 21(a)):		
– Provision for the year	200	7,182
– Over-provision in respect of prior years	(8,361)	(5,270)
	(8,161)	1,912
Deferred taxation (Note 21(b)):		
– Origination and reversal of temporary differences	23,136	(21,259)
– Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group/(change in applicable withholding tax rate)	1,841	(6,879)
	24,977	(28,138)
	16,816	(26,226)

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 profit at applicable tax rates:**

	2021 RMB'000	2020 RMB'000
Profit/(loss) before taxation	99,755	(144,130)
Expected tax on profit/(loss) before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	26,384	(29,800)
Tax effect of non-deductible expenses	2,065	951
Tax effect on preferential tax rate	(3,055)	16,272
Tax effect on bonus deduction of research and development costs	(2,058)	(1,500)
Over-provision in respect of prior years	(8,361)	(5,270)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (iv))	1,841	(6,879)
Actual tax expense	16,816	(26,226)

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, which is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.
- For this subsidiary, the first HK\$2,000,000 of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.
- (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 2021 (2020: 25%). Dalipal Pipe was qualified as a "High and New Technology Enterprise" and is entitled to the preferential tax rate of 15% for the three calendar years ended/ending 31 December 2021, 2022 and 2023.
- (iv) One of the Group's subsidiaries established in the PRC intended to distribute RMB36,821,000 to its immediate holding company outside of Mainland China in the foreseeable future. Pursuant to the Sino-Hong Kong Double Tax Arrangement, the distribution is subject to a PRC Withholding Tax rate of 5%. Accordingly, a deferred tax liability of RMB1,841,000 has been recognised at 31 December 2021.

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	2021 Total RMB'000
Executive directors							
Mr. Meng Fanyong (<i>Chairman</i>)	-	481	-	28	509	-	509
Mr. Zhang Hongyao	-	1,969	-	60	2,029	864	2,893
Ms. Xu Wenhong	-	741	-	12	753	-	753
Mr. Meng Yuxiang	-	650	-	44	694	-	694
Ms. Gan Shuya	-	785	-	42	827	592	1,419
Mr. Yin Zhixiang	-	629	-	12	641	-	641
Independent non-executive directors							
Mr. Guo Kaiqi	245	-	-	-	245	-	245
Mr. Wong Jovi Chi Wing	245	-	-	-	245	-	245
Mr. Cheng Haitao	245	-	-	-	245	-	245
	735	5,255	-	198	6,188	1,456	7,644

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)	2020 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Mr. Meng Fanyong (<i>Chairman</i>)	-	619	-	24	643	-	643
Mr. Zhang Hongyao	-	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:

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 two (2020: three) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2020: two) individuals are as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	2,811	1,593
Share-based payments (Note 20)	579	2,381
Retirement scheme contributions	66	19
	3,456	3,993

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:

	2021 Number of individuals	2020 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
	3	2

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 Earnings/(loss) per share**(a) Basic earnings/(loss) per share**

The basic earnings per share for the year ended 31 December 2021 is calculated based on the profit attributable to equity shareholders of the Company of RMB82,939,000 and the weighted average of 1,500,273,000 ordinary shares in issue.

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

	2021 '000	2020 '000
Issued ordinary shares at 1 January	1,500,000	1,500,000
Shares issued under share option scheme	273	–
Weighted average number of shares in issue	1,500,273	1,500,000

(b) Diluted earnings/(loss) per share

The calculation of diluted earnings per share for the year ended 31 December 2021 is based on the profit attributable to equity shareholders of the Company of RMB82,939,000 and the weighted average number of ordinary shares (diluted) of 1,500,487,000.

The weighted average number of ordinary shares (diluted) for the year ended 31 December 2021 is calculated as follows:

	2021 '000
Weighted average number of ordinary shares at 31 December	1,500,273
Effect of deemed issue of shares under the Company's share option scheme (Note 20)	214
Weighted average number of ordinary shares (diluted) at 31 December	1,500,487

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.

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 2020	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
Additions	11,264	16,484	3,438	43,392	1,844	76,422
Transfer in/(out)	26,753	38,664	284	(65,701)	–	–
Disposals	(1,274)	(535)	(1,148)	–	–	(2,957)
At 31 December 2021	1,013,365	1,356,638	26,130	70,082	266,156	2,732,371
Accumulated depreciation:						
At 1 January 2020	(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)
Charge for the year	(31,439)	(83,561)	(2,522)	–	(6,600)	(124,122)
Written back on disposals	368	513	1,083	–	–	1,964
At 31 December 2021	(237,715)	(551,800)	(14,029)	–	(54,927)	(858,471)
Carrying amount:						
At 31 December 2021	775,650	804,838	12,101	70,082	211,229	1,873,900
At 31 December 2020	769,978	833,273	10,966	92,391	215,985	1,922,593

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 2021, property, plant and equipment of the Group with carrying amounts of RMB1,103,556,000 (2020: RMB1,179,018,000) have been pledged as collateral for the Group's interest-bearing borrowings (see Note 19).
- (iii) At 31 December 2021, the Group is in the process of applying for registration of the ownership certificates for certain properties with an aggregate carrying amount of RMB12,352,000 (2020: RMB12,833,000). 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:

	2021 RMB'000	2020 RMB'000
Properties leased for own use, carried at depreciated cost:		
– Land use rights	210,085	215,848
– Office premises	1,144	137
	211,229	215,985

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

	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets by class of underlying assets (Note 6(c)):		
– Land use rights	5,763	5,763
– Office premises	837	892
	6,600	6,655

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 of establishment/ incorporation/ operation 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	RMB600,000,000	100%	–	100%	Design, manufacture and sale of OCTG, special seamless steel pipes and pipe billets
Agile Rise Global Limited	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")	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	RMB420,000,000	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) and (iii))	The PRC 14 November 2018	RMB200,000,000	100%	–	100%	Investment holding

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Raw materials	153,959	145,214
Work in progress	254,002	138,586
Finished goods	372,357	221,474
	780,318	505,274
Less: write-down of inventories	(724)	(10,323)
	779,594	494,951

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

	2021 RMB'000	2020 RMB'000
Carrying amount of inventories sold	3,345,825	2,083,560
(Reversal)/recognition of write-down of inventories	(9,599)	9,490
	3,336,226	2,093,050

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 Trade and bills receivables

	2021 RMB'000	2020 RMB'000
Trade receivables	335,993	261,258
Less: loss allowance (Note 14(b))	(4,092)	(5,838)
	331,901	255,420
Bills receivable	1,186,789	497,275
	1,518,690	752,695

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

The balance of bills receivable 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:

	2021 RMB'000	2020 RMB'000
Less than 1 month	160,062	143,007
1 to 3 months	129,647	88,151
3 to 6 months	39,642	16,632
Over 6 months	2,550	7,630
	331,901	255,420

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:

	2021 RMB'000	2020 RMB'000
At 1 January	5,838	8,833
Credit losses reversed (Note 6(c))	(1,746)	(2,995)
At 31 December	4,092	5,838

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 2021, 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 RMB146,913,000 (2020: RMB131,303,000).

Bills receivable includes bank acceptance notes discounted at banks or endorsed to suppliers with recourse totaling RMB192,075,000 (2020: RMB47,358,000) at 31 December 2021, 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 RMB192,075,000 (2020: RMB47,358,000) at 31 December 2021.

(d) At 31 December 2021, trade and bills receivables with an aggregate carrying amount of RMB428,563,000 (2020: RMB180,476,000) have been pledged for the Group's interest-bearing borrowings (see Note 19).

15 Prepayments, deposits and other receivables

	2021 RMB'000	2020 RMB'000
Prepayments for purchase of raw materials	15,043	9,733
Prepayments for transportation and other miscellaneous expenses	9,780	9,705
VAT recoverable	1,181	9,983
Advance payments	2,285	–
Receivable in connection with compensation for relocation of production facilities from local government	–	55,554
Others	2,490	1,025
	30,779	86,000
Less: loss allowance	(3,089)	(2,983)
	27,690	83,017

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:

	2021 RMB'000	2020 RMB'000
At 1 January	2,983	294
Recognition of credit losses (Note 6(c))	106	2,689
At 31 December	3,089	2,983

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:

	2021 RMB'000	2020 RMB'000
Cash at bank	551,599	416,112
Cash on hand	13	61
Cash and cash equivalents included in the consolidated statement of financial position	551,612	416,173
Less: restricted deposits (Note (i))	(121,424)	(103,953)
Cash and cash equivalents included in the consolidated cash flow statement	430,188	312,220

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 (see Note 17) the Group.

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)	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

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)	Lease liabilities RMB'000	Total RMB'000
At 1 January 2021	1,922,252	3,517	151	1,925,920
Changes from financing cash flows:				
Proceeds from interest-bearing bank and other borrowings	2,225,064	-	-	2,225,064
Repayment of interest-bearing bank and other borrowings	(1,680,090)	-	-	(1,680,090)
Capital element of lease rentals paid	-	-	(792)	(792)
Interest element of lease rentals paid	-	-	(55)	(55)
Interest paid	-	(113,092)	-	(113,092)
Total changes from financing cash flows	544,974	(113,092)	(847)	431,035
Other changes:				
New leases entered into during the year (Note 11(a))	-	-	1,844	1,844
Interest expenses (Note 6(a))	-	118,784	55	118,839
Total other changes	-	118,784	1,899	120,683
At 31 December 2021	2,467,226	9,209	1,203	2,477,638

(c) Total cash outflow for leases

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

	2021 RMB'000	2020 RMB'000
Within financing cash flows – lease rentals paid	847	980

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Trade and bills payables

	2021 RMB'000	2020 RMB'000
Trade payables	693,313	288,797
Bills payable	–	30,449
	693,313	319,246

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:

	2021 RMB'000	2020 RMB'000
Less than 1 month	460,570	239,028
1 to 3 months	216,620	52,553
3 to 6 months	8,591	18,440
Over 6 months	7,532	9,225
	693,313	319,246

18 Other payables and accruals

	2021 RMB'000	2020 RMB'000
Payables for construction of property, plant and equipment	62,166	72,007
Payables for other taxes	28,178	2,472
Payables for staff related costs	4,730	3,199
Interest payables	9,209	3,517
Payables for transportation and utilities expenses	28,394	10,014
Others	7,355	4,051
Financial liabilities measured at amortised cost	140,032	95,260
Receipts in advance	83,325	64,075
	223,357	159,335

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:**

	2021 RMB'000	2020 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment	289,680	304,680
– Secured by the Group's trade and bills receivables and/or restricted deposits	556,440	182,300
– Unguaranteed and unsecured	618,906	547,072
	1,465,026	1,034,052
Add: current portion of long-term borrowings (Note 19(b))	351,900	445,000
	1,816,926	1,479,052

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

	2021 RMB'000	2020 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment	592,900	628,400
– Secured by the Group's inventories	150,000	145,000
– Unguaranteed and unsecured	190,000	65,500
	932,900	838,900
Borrowings from a related party (Note 26(b)):		
– Unguaranteed and unsecured	69,300	49,300
	1,002,200	888,200
Less: current portion of long-term borrowings (Note 19(a))	(351,900)	(445,000)
	650,300	443,200

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Within 1 year	351,900	445,000
After 1 year but within 2 years	260,300	383,200
After 2 years but within 5 years	390,000	60,000
	1,002,200	888,200

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

	2021 RMB'000	2020 RMB'000
Property, plant and equipment (Note 11(a)(ii))	1,103,556	1,179,018
Inventories	250,000	250,150
Trade and bills receivables (Note 14(d))	428,563	180,476
Cash at bank and on hand – restricted deposits	66,369	10,305
	1,848,488	1,619,949

- (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 2021, none of the covenants relating to the interest-bearing bank borrowings had been breached (2020: 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.

On 10 December 2021, share options, which became effective immediately, to subscribe for an aggregate of 4,000,000 shares were granted to a senior management under the Share Option Scheme.

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.

(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	service period conditions apply (Note (ii))	6 years
– On 10 December 2021	4,000,000	service period conditions apply (Note (iii))	9.97 years
Total share options	49,000,000		

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.
- (iii) For these share options granted on 10 December 2021 which became effective immediately, there are no vesting conditions. These share options are exercisable two years from granted date and with a contractual life of 9.97 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:

	2021		2020	
	Weighted average exercise price	Number of Options	Weighted average exercise price	Number of Options
Outstanding at 1 January	HK\$0.477	42,300,000	HK\$0.477	45,000,000
Exercised during the year	HK\$0.477	(1,200,000)	–	–
Granted during the year	HK\$2.56	4,000,000	–	–
Forfeited during the year	HK\$0.477	(10,200,000)	HK\$0.477	(2,700,000)
Outstanding at 31 December	HK\$0.72	34,900,000	HK\$0.477	42,300,000
Exercisable at 31 December	HK\$0.477	2,700,000	HK\$0.477	3,300,000

The share options outstanding at 31 December 2021 had a weighted exercise price of HK\$0.72 (2020: HK\$0.477) and a weighted average remaining contractual life of 4.9 years (2020: 5.2 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.

	Pre-IPO Share Option Scheme	Share Option Scheme
Fair value at measurement date	HK\$0.5813–HK\$0.9146	HK\$0.7165–HK\$0.7306
Share price	HK\$1.53	HK\$2.56
Exercise price	HK\$0.477	HK\$2.56
Expected volatility (expressed as volatility used in the modelling under the Binomial Option Pricing Model)	31.86%–32.84%	40%
Option life (contractual life used in the modelling under the Binomial Option Pricing Model)	6–7 years	9.97 years
Expected dividends	4.88%	7.10%
Risk-free interest rate (based on the yield of Hong Kong government bonds)	1.37%	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:**

	2021 RMB'000	2020 RMB'000
Net balance of income tax payable at 1 January	9,276	28,020
Provision for the year	200	7,182
Over-provision in respect of prior years	(8,361)	(5,270)
Tax refunded	–	1,461
Income tax paid	(1,115)	(22,117)
Balance of income tax payable at 31 December	–	9,276
Represented by:		
Income tax payable	–	9,276

(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	Unrealized gain or loss 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 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 and 1 January 2021	22,091	1,322	1,548	2,376	–	27,337	–	(8,083)	(8,083)	19,254	
Credited/(charged) to the consolidated statement of profit or loss (Note 7)	(17,768)	(245)	(1,440)	(258)	788	(18,923)	(1,841)	(4,213)	(6,054)	(24,977)	
At 31 December 2021	4,323	1,077	108	2,118	788	8,414	(1,841)	(12,296)	(14,137)	(5,723)	

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*

	2021 RMB'000	2020 RMB'000
Net deferred tax asset recognised in the consolidated statement of financial position	–	19,254
Net deferred tax liabilities recognised in the consolidated statement of financial position	(5,723)	–
	(5,723)	19,254

(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 RMB431,449,000 (2020: RMB323,433,000), 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

	2021 RMB'000	2020 RMB'000
At 1 January	15,842	17,559
Credited to the consolidated statement of profit or loss and other comprehensive income	(1,717)	(1,717)
At 31 December	14,125	15,842

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 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 and 1 January 2021	134,263	159,130	5,866	(14,681)	81,635	366,213
Changes in equity for the year ended 31 December 2021:						
Loss for the year	-	-	-	-	(6,227)	(6,227)
Other comprehensive income	-	-	-	(10,736)	-	(10,736)
Total comprehensive income for the year	-	-	-	(10,736)	(6,227)	(16,963)
Shares issued under share option scheme	99	1,224	(854)	-	-	469
Equity settled share-based transactions (Note 20)	-	-	2,105	-	-	2,105
	99	1,224	1,251	-	-	2,574
Balance at 31 December 2021	134,362	160,354	7,117	(25,417)	75,408	351,824

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2021		2020	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised share capital (Note (i))	20,000,000	20,000,000	20,000,000	2,000,000

	2021		2020	
	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	1,500,000,000	134,263
Shares issued under share option scheme (Note (ii))	1,200,000	99	–	–
At 31 December	1,501,200,000	134,362	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) On 30 September 2021 and 9 November 2021, share options were exercised at HK\$0.477 per share to subscribe for 600,000 ordinary shares in the Company respectively at a total consideration of HK\$572,000 (equivalent to RMB469,000). RMB99,000 and RMB370,000 were credited in the Company's share capital and share premium account respectively. RMB854,000 was transferred from the capital reserve to the share premium account in accordance with policy set out in Note 2(o)(ii).

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 at 31 December 2020 and 2021 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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Capital, reserves and distributions/dividends (CONTINUED)**(d) Dividends***(i) Dividends payable to equity shareholders of the Company attributable to the year*

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the reporting of HK\$0.03 per ordinary share (2020: HK\$ Nil)	36,821	–

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.

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

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$Nil per ordinary share (2020: HK\$0.1 per ordinary share)	–	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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 13.3% (2020: 28.6%) and 54.4% (2020: 84.8%) 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.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	2021		
	Expected loss rate	Gross carrying amount RMB'000	Loss allowances RMB'000
Current (not past due)	0.3%	291,843	(965)
Less than 3 months past due	1.2%	35,588	(424)
3 to 6 months past due	5.4%	5,816	(314)
6 to 12 months past due	12.8%	409	(52)
Over 12 months past due	100.0%	2,337	(2,337)
		335,993	(4,092)
2020			
	Expected loss rate	Gross carrying amount RMB'000	Loss allowances RMB'000
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)

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:

	2021				Carrying amount RMB'000
	Contractual undiscounted cash flow				
	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	693,313	–	–	693,313	693,313
Other payables and accruals measured at amortised cost	140,032	–	–	140,032	140,032
Lease liabilities	997	244	–	1,241	1,203
Interest-bearing borrowings	1,883,212	291,104	410,102	2,584,418	2,467,226
	2,717,554	291,348	410,102	3,419,004	3,301,774

	2020				Carrying amount RMB'000
	Contractual undiscounted cash flow				
	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

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:

	2021		2020	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
Bank and other borrowings	3.60%~7.00%	2,372,226	3.60%~7.00%	1,711,252
Variable rate borrowings:				
Bank borrowings	4.51%	95,000	4.24%~4.75%	211,000
		2,467,226		1,922,252
Fixed rate borrowings as a percentage of total borrowings		96%		89%

(ii) Sensitivity analysis

At 31 December 2021, 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 RMB808,000 (2020: RMB1,794,000).

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 2020.

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.

	2021 US\$ RMB'000	2020 US\$ RMB'000
Cash at bank and on hand	32,218	5,058
Trade and bills receivables	47,407	17,585
Other payables and accruals	(4,647)	(4,390)
	74,978	18,253

At 31 December 2021, 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 RMB3,187,000 (2020: RMB776,000). 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 2021 and 2020.

25 Commitments

Capital commitments outstanding at 31 December 2021 not provided for in the consolidated financial statements were as follows:

	2021 RMB'000	2020 RMB'000
Commitments in respect of property, plant and equipment: – Contracted for	78,727	117,865

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Borrowings received from a related company	33,000	120,000
Borrowings repaid to a related party	13,000	70,700
Interest expenses on borrowings from a related company	1,972	3,498
Consideration paid for acquisition of non-controlling interests	-	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

	2021 RMB'000	2020 RMB'000
Borrowings from a related company	69,300	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:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	9,092	7,311
Contributions to defined contribution retirement plan	269	144
Equity settled share-based payments (Note 20)	2,105	4,078
	11,466	11,533

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	2021 RMB'000	2020 RMB'000
Non-current assets			
Interests in subsidiaries	12	352,797	366,908
Current assets			
Cash at bank and on hand		157	500
		157	500
Current liabilities			
Other payables		(26)	(479)
Amounts due to a subsidiary		(1,104)	(716)
Net current liabilities			
		(973)	(695)
NET ASSETS		351,824	366,213
CAPITAL AND RESERVES			
Share capital	23	134,362	134,263
Reserves		217,462	231,950
TOTAL EQUITY		351,824	366,213

Approved and authorised for issue by the board of directors on 21 March 2022.

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 2021 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. In March of 2022, a new wave of the COVID-19 infections has started in China, temporary production suspension has been implementing for virus control in one of the factories of the Group. 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 instability in both the sales volume and selling price of the Group's OCTG products. The directors of the Company are 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.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2021

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 2021 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 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>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 IAS 12, <i>Deferred tax related to assets and liabilities arising from a single transaction</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				2021 RMB'000
	2017 RMB'000	2018 RMB'000	2019 RMB'000	2020 RMB'000	
Revenue	2,276,874	3,094,823	2,825,969	2,259,402	3,762,629
Profit/(loss) before taxation	274,312	355,260	409,731	(144,130)	99,755
Income tax	(42,103)	(54,062)	(72,321)	26,226	(16,816)
Profit/(loss) for the year	232,209	301,198	337,410	(117,904)	82,939
Profit/(loss) for the year attributable to:					
Equity shareholders of the Company	232,209	301,198	333,729	(116,417)	82,939
Non-controlling interests	–	–	3,681	(1,487)	–
	232,209	301,198	337,410	(117,904)	82,939
ASSETS AND LIABILITIES					
Total assets	2,542,299	3,117,095	4,241,680	3,688,683	4,751,486
Total liabilities	1,655,909	2,354,553	2,715,701	2,426,102	3,404,947
Net assets	886,390	762,542	1,525,979	1,262,581	1,346,539
Net assets attributable to:					
Equity shareholders of the Company	886,390	755,145	1,514,901	1,262,581	1,346,539
Non-controlling interests	–	7,397	11,078	–	–
	886,390	762,542	1,525,979	1,262,581	1,346,539

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