達力普控股有限公司

DALIPAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code : 1921

GLOBAL OFFERING

Sole Sponsor

CMBC CAPITAL

Joint Global Coordinators

民銀證券
CMBC SECURITIES COMPANY LIMITED

國泰君安國際
GUOTAI JUNAN INTERNATIONAL

If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

Dalipal Holdings Limited
達力普控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**300,000,000 Shares (subject to the Over-allotment Option)**
Number of Hong Kong Public Offer Shares	:	**30,000,000 Shares (subject to reallocation)**
Number of International Placing Shares	:	**270,000,000 Shares (subject to reallocation and the Over-allotment Option)**
Offer Price	:	**HK$1.59 to HK$1.83 per Offer Share (payable in full at the maximum Offer Price on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)**
Nominal value	:	**HK$0.10 per Share**
Stock code	:	**1921**

Sole Sponsor

CMBC CAPITAL

Joint Global Coordinators

民銀證券 CMBC SECURITIES COMPANY LIMITED

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

民銀證券 CMBC SECURITIES COMPANY LIMITED

國泰君安國際 GUOTAI JUNAN INTERNATIONAL

安信國際 ESSENCE INTERNATIONAL

海通國際 HAITONG

山證國際 SHANXI SECURITIES INTERNATIONAL

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors".

The Offer Price is expected to be fixed by agreement between the Underwriters' Representative (for itself and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 31 October 2019 and, in any event, not later than Wednesday, 6 November 2019. The Offer Price will be not more than HK$1.83 and is currently expected to be not less than HK$1.59, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Wednesday, 6 November 2019 between the Underwriters' Representative (for itself and on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse. Applicants for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK$1.83 for each Hong Kong Public Offer Share, together with a 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, subject to refund if the Offer Price is lower than HK$1.83 as finally determined.

The Underwriters' Representative (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on our Company's website at **www.dalipal.com** and the Stock Exchange's website at **www.hkexnews.hk** not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Please refer to the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares" for further details. Please also refer to the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination".

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure the applicants for the subscription for, the Hong Kong Public Offer Shares, are subject to termination by the Underwriters' Representative (for itself and on behalf of the Hong Kong Underwriters), subject to the consent of the Sole Sponsor, if certain grounds arise prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged, or transferred within the United States or to, or for the account or benefit of, US persons, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act.

28 October 2019

We will issue an announcement on our website at **www.dalipal.com** and the Stock Exchange's website at **www.hkexnews.hk** if there is any change in the following expected timetable of the Hong Kong Public Offering:

Latest time to complete electronic applications under **HK eIPO White Form** service through the designated website at **www.hkeipo.hk**(4)	11:30 a.m. on Thursday, 31 October 2019
Application lists open(2)	11:45 a.m. on Thursday, 31 October 2019
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Thursday, 31 October 2019
Latest time to give **electronic application instructions** to HKSCC(3)	12:00 noon on Thursday, 31 October 2019
Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s).	12:00 noon on Thursday, 31 October 2019
Application lists close(2)	12:00 noon on Thursday, 31 October 2019
Expected Price Determination Date(5)	Thursday, 31 October 2019
Announcement of the Offer Price, the indication of the levels of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allotment under the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be published on the Stock Exchange's website at **www.hkexnews.hk** and our website at **www.dalipal.com** on or before	Thursday, 7 November 2019
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels, as described in the section headed "How to Apply for the Hong Kong Public Offer Shares — 11. Publication of Results" from.	Thursday, 7 November 2019

Results of allocations in the Hong Kong Public Offering will be available at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) with a "search by ID" function	Thursday, 7 November 2019
Despatch/collection of Share certificates in respect of wholly or partially successful applications and **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful or wholly successful (if applicable) applications on or before(6)	Thursday, 7 November 2019
Dealings in Shares on the Stock Exchange to commence on	Friday, 8 November 2019

Notes:

(1) All times and dates refer to Hong Kong local times and dates. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering".

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 October 2019, the application lists will not open or close on that day. Please refer to the section headed "How to Apply for the Hong Kong Public Offer Shares — 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists".

(3) Applicants who apply for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Hong Kong Public Offer Shares — 6. Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS".

(4) Applicants will not be permitted to submit their application to the designated **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If an applicant has already submitted its application and obtained an application reference number from the designated website prior to 11:30 a.m., the applicant will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) We expect to determine the Offer Price by agreement with the Underwriters' Representative (for itself and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 31 October 2019 and, in any event, will not be later than Wednesday, 6 November 2019. If, for any reason, the Offer Price is not agreed between the Underwriters' Representative (for itself and on behalf of the Underwriters) and the Company on or before Wednesday, 6 November 2019, the Hong Kong Public Offering and the International Placing will not proceed and will lapse.

(6) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by the **WHITE** Application Form may collect Share certificates (if applicable) and refund cheques (if applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 7 November 2019 or any other date as announced by us as the date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by sending their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Public Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their Share certificates, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post to the addressees specified in the relevant Application Forms at the applicants' own risk. Further information is set out in the section headed "How to Apply for the Hong Kong Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".

e-Auto Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications if the Offer Price is less than the initial price payable on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque. Applicants who have applied through the **HK eIPO White Form** service and paid their applications monies through single bank accounts may have refund monies (if any) despatched to that bank account in the form of e-Auto Refund payment instructions. Applicants who have applied through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Share certificates will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects; and (ii) none of the Underwriting Agreements has been terminated. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully the sections headed "Underwriting", "How to Apply for the Hong Kong Public Offer Shares" and "Structure and Conditions of the Global Offering" for additional information regarding the Global Offering, including the conditions to the Global Offering, how to apply for the Hong Kong Public Offer Shares, the expected timetable, the effects of bad weather and/or extreme conditions and the despatch/collection of Share certificates and refund of your application monies.

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Global Offering and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms. Any information not given or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, employees, agents or representatives, or any other parties involved in the Global Offering. Information contained in our website, located at ***www.dalipal.com*** *does not form part of this prospectus.*

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This summary aims to give you an overview of the information contained in this prospectus, which does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide whether to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

We are an OCTG manufacturer focusing on the manufacture of casing. During the Track Record Period and up to the Latest Practicable Date, casing had been the only type of OCTG that we had sold. We are a leading OCTG manufacturer among private-owned manufacturers with an integrated business model, providing full range services covering the development, manufacture and sales of OCTG and other oil pipes primarily to oil companies, OCTG manufacturers and OCTG processing factories in the PRC, and securing stable and cost-efficient supply of our principal production materials, i.e., pipe billets, by manufacturing them on our own. We are also capable of developing and manufacturing tubing, being another major product of OCTG. During the Track Record Period, we had also sold our surplus pipe billets to, amongst others, steel products, oil pipes and energy equipment manufacturers in the PRC after fulfilling our internal production needs. According to the CIC Report, we (i) ranked third among all of the OCTG manufacturers in the PRC in 2018 and we are the market leader among private-owned manufacturers in the supply of OCTG in the PRC in 2018 with approximately 9.6% market share based on our OCTG sales value in FY2018; and (ii) we ranked sixth among all of the OCTG manufacturers and second among private-owned manufacturers in the PRC with approximately 7.7% market share in terms of the overall OCTG markets based on our sales value of overall OCTG, which includes OCTG and its semi-finished products, namely plain-end pipes, in FY2018.

OCTG mainly comprises oil pipes that are widely used in oilfield drilling and completion procedures. Other oil pipes mainly comprise plain-end pipes which may be further processed into OCTG. The majority of the other oil pipes which we manufacture and sell is plain-end pipe.

We are headquartered in Cangzhou, Hebei Province, the PRC. With over 20 years of leadership under Mr. Meng, who is one of our founders, the chairman of our Board, executive Director and a Controlling Shareholder, we have developed from an OCTG processing factory to a full production chain of OCTG, other oil pipes and pipe billets manufacturer, capable of developing and manufacturing different specifications and models of OCTG, other oil pipes and pipe billets. We also export some of our OCTG and other oil pipes to customers overseas. We have gained sound market reputation manifested by the accreditations awarded to us in relation to quality and market acceptance of our products marketed under the brand name "Dalipal".

We have attained leading market position by building capabilities in the development and manufacture of OCTG, other oil pipes, as well as pipe billets. With strong R&D capabilities, we develop OCTG based on the different needs of our customers. We believe such an integrated manufacturing model has enabled us to maximise our operational efficiency in catering for the different requirements of our customers, minimise our production costs and to have better control over our product quality. We believe that the quality and value-for-money of our products, our full production chain capabilities and short production lead time provide a unique value proposition for our customers, and further contribute to our ability to maintain our leading market position in the OCTG industry.

Our success is also attributable to the long-term relationship we have built with, and the recognition by, our major customers, amongst which include members of one of the PRC Big-3 NOC. We have been recognised as approved vendor of such PRC Big-3 NOC since 2001 and for FY2016, FY2017, FY2018 and 6M2019, our sales to the members of such PRC Big-3 NOC accounted for approximately 70.3%, 55.5%, 52.0% and 62.5% of our revenue, respectively, and our sales of OCTG to members of such PRC Big-3 NOC accounted for approximately 88.3%, 87.6%, 84.2% and 87.1% of our total revenue attributable to the sales of OCTG, respectively. Each of such members of one of the PRC Big-3 NOC operates under independent management and is accordingly regarded by us as a distinctive and independent customer.

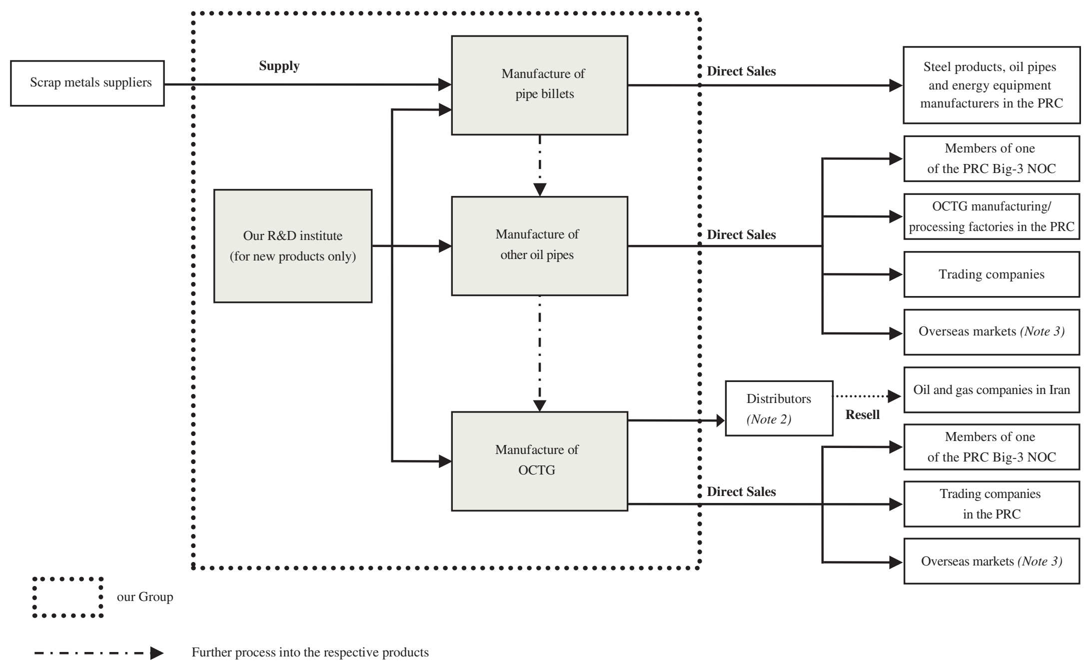
We have automated production facilities with designed annual production capacity of approximately 200,000 tonnes of OCTG, 250,000 tonnes of other oil pipes and 600,000 tonnes of pipe billets during the Track Record Period. Upon completion of Phase One Expansion in September 2019, the designed annual production capacity of our OCTG production line, other oil pipe production line and pipe billet production line is 300,000 tonnes, 550,000 tonnes and 600,000 tonnes, respectively.

As a result of global oil prices rebound and the PRC government's policies to increase oil production, the oilfield services and equipment industry showed clear signs of recovery in 2017 and strong rebound in 2018. According to the CIC Report, the exploration and development capital expenditure of the PRC Big-3 NOC has increased during the Track Record Period and the market size of oilfield services and equipment industry in the PRC is expected to increase from RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, representing a CAGR of 5.5%.

For FY2016, FY2017, FY2018 and 6M2019, our revenue amounted to approximately RMB747.9 million, RMB2,276.9 million, RMB3,094.8 million and RMB1,444.0 million, respectively, and our profit/(loss) for the year/period amounted to approximately RMB(53.0) million, RMB232.2 million, RMB301.2 million and RMB117.0 million, respectively.

OUR BUSINESS MODEL

The following diagram illustrates our business model:



Notes:

1. The above diagram only illustrates the types of our major customers during the Track Record Period.

2. During the Track Record Period, our sales to Iran were conducted through one distributor. As of the Latest Practicable Date, all distributorship arrangements for sales to Iran had been terminated.

3. During the Track Record Period, we had sold to over 10 countries and regions in worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

During the Track Record Period and up to the Latest Practicable Date, we had purchased OCTG, which mainly include those that have large specifications and/or low steel grade, from two Independent Third Party suppliers, the largest shareholder holding over 50% of the equity interest in each of which are spouses at the material time when the transactions took place, to satisfy the OCTG purchase orders from one of our customers which is also a member of one of the PRC Big-3 NOC. Please refer to the section headed "Business — Our Business Model" for details.

Our products

Our products comprise three categories, namely, (i) OCTG; (ii) other oil pipes; and (iii) pipe billets. Please refer to the section headed "Business — Our Products" for further details.

Our revenue by product types

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
OCTG*(Note 1)*	594,849	79.5	1,345,154	59.1	1,709,755	55.2	709,197	52.1	877,062	60.7
Other oil pipes*(Note 2)*	143,323	19.2	230,694	10.1	345,394	11.2	147,726	10.8	181,307	12.6
Pipe billets	9,695	1.3	701,026	30.8	1,039,674	33.6	506,026	37.1	385,631	26.7
Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Notes:

1. Casing was the only type of products sold under this category during the Track Record Period.

2. Plain-end pipes and line pipes were the principal types of products sold under this category during the Track Record Period.

During the Track Record Period, we generated most of our revenue from the sales of OCTG, which accounted for approximately 79.5%, 59.1%, 55.2% and 60.7% of our total revenue for each of FY2016, FY2017 and FY2018 and 6M2019, respectively. Our sales of OCTG increased from approximately RMB594.8 million for FY2016 to approximately RMB1,709.8 million for FY2018, representing a CAGR of approximately 69.5%. Furthermore, sales of OCTG increased from approximately RMB709.2 million for 6M2018 to approximately RMB877.1 million for 6M2019, representing an increase of approximately 23.7%. Our sales of other oil pipes increased from approximately RMB143.3 million for FY2016 to approximately RMB345.4 million for FY2018, representing a CAGR of approximately 55.3%. Furthermore, sales of other oil pipes increased from approximately RMB147.7 million for 6M2018 to approximately RMB181.3 million for 6M2019, representing an increase of approximately 22.7%. Our sales of pipe billets increased from approximately RMB9.7 million for FY2016 to approximately RMB1,039.7 million for the FY2018, representing a CAGR of approximately 935.3%. Sales of pipe billets decreased from approximately RMB506.0 million for 6M2018 to approximately RMB385.6 million for 6M2019, representing a decrease of approximately 23.8%. The increase in our sales of each of these major products during FY2016, FY2017 and FY2018 was mainly due to (i) increase in average selling price of our products; (ii) increase in sales volume; and (iii) our ability to achieve full integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG, which allowed us to satisfy the demand from our customers. The increase in our sales of OCTG and other oil pipes in 6M2019 as compared to 6M2018 was mainly due to the increase in sales volume of OCTG and other oil pipes and the increase in average selling price of OCTG. The decrease in our sales of pipe billets in 6M2019 as compared to 6M2018 was mainly due to the decrease in sales volume as there was an increased amount of pipe billets that was utilised internally and the slight decrease in average selling price of pipe billets.

Sales Quantities, Average Selling Prices and Product Life Cycle

The following table sets forth the sales quantities, average selling prices, average production cost, price range and approximate product life cycle of our products during the years/periods indicated:

	FY2016				FY2017				FY2018				6M2018				6M2019				
		Approximate				Approximate				Approximate				Approximate				Approximate			
	Total sales quantities	Average selling price per tonne	Average production cost per tonne	Selling price range per tonne (Note 2)	Total sales quantities	Average selling price per tonne	Average production cost per tonne	Selling price range per tonne (Note 2)	Total sales quantities	Average selling price per tonne	Average production cost per tonne	Selling price range per tonne (Note 2)	Total sales quantities	Average selling price per tonne	Average production cost per tonne	Selling price range per tonne (Note 2)	Total sales quantities	Average selling price per tonne	Average production cost per tonne	Selling price range per tonne (Note 2)	Approximate product life cycle (years) (Note 3)
	('000 tonnes)	(RMB)	(RMB)	(RMB)	('000 tonnes)	(RMB)	(RMB)	(RMB)	('000 tonnes)	(RMB)	(RMB)	(RMB)	('000 tonnes)	(RMB)	(RMB)	(RMB)	('000 tonnes)	(RMB)	(RMB)	(RMB)	
OCTG (Note 1)	166.1	3,581	3,342	2,974–6,068	266.9	5,040	4,031	2,942–6,193	262.4	6,515	4,876	4,642–7,189	116.5	6,088	4,383	4,642–7,000	134.4	6,526	4,974	5,207–8,937	10 to 30
Other oil pipes	43.3	3,304	3,177	2,197–4,316	56.5	4,083	3,384	2,991–5,385	64.5	5,357	4,460	3,821–6,638	28.8	5,121	3,960	3,821–6,043	35.4	5,122	4,229	3,805–7,026	Above 20
Pipe billets	3.6	2,665	2,372	1,699–3,590	219.0	3,201	2,594	1,709–4,957	284.8	3,651	3,288	3,146–4,534	141.9	3,566	3,141	3,231–4,316	109.5	3,522	3,278	3,147–4,129	N/A (Note 4)

Notes:

1. Casing, which is the major product of OCTG, was the only type of products sold under this category during the Track Record Period.

2. This only includes the selling price range of our key products.

3. The life cycles of different products are estimated with reference to our past experience and are for indication purpose only.

4. As pipe billets are a semi-finished product which is used for further processing into other products, no approximate product life cycle may be indicated.

Our gross profit and gross profit margin by product type

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
OCTG	39,644	6.7	269,263	20.0	430,194	25.2	198,613	28.0	208,548	23.8
Other oil pipes	5,503	3.8	39,513	17.1	57,843	16.7	33,497	22.7	31,595	17.4
Pipe billets	1,065	11.0	132,898	19.0	103,442	9.9	60,349	11.9	26,657	6.9
	46,212	6.2	441,674	19.4	591,479	19.1	292,459	21.5	266,800	18.5

Our overall gross profit was approximately RMB46.2 million, RMB441.7 million, RMB591.5 million and RMB266.8 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively. Our overall gross profit margin was approximately 6.2%, 19.4%, 19.1% and 18.5% for each of FY2016, FY2017, FY2018 and 6M2019, respectively. The higher overall gross profit margin in FY2017 and FY2018 was mainly due to (i) the increase in the average selling prices of our products due to the market demand for our products, offsetting by the increase in purchase prices of raw materials; and (ii) high utilisation rate of our key production lines and thereby allowing us to achieve high production output and enjoy economies of scale which allowed us to decrease our manufacturing costs and our fixed costs per unit of our products. Our overall gross profit for 6M2019 decreased by approximately RMB25.7 million, or approximately 8.8%, as compared with 6M2018 was mainly due to the decrease in gross profit contribution from sales of pipe billets by approximately RMB33.6 million, which was partly offset by the increase in gross profit contribution from sales of OCTG by approximately RMB9.9 million. Sales volume of pipe billets decreased in 6M2019 as compared to 6M2018 mainly because of (i) the increased amount of pipe billets utilised internally by us for the production of OCTG and other oil pipes; and (ii) the temporary fluctuations in the scrap metal market, leading to the increase in the price of scrap metal, being our principal raw material. The selling price of pipe billets also slightly decreased during 6M2019. As such, we had reduced the production amount and sales volume of pipe billets. Our overall gross profit margin decreased from approximately 21.5% for 6M2018 to approximately 18.5% for 6M2019 mainly due to the increase in the purchase price of scrap metal during 6M2019, which was in line with the market trend. The overall gross profit for 6M2019 only slightly decreased as compared to that in FY2018.

Our customers

During the Track Record Period, our products were sold domestically in the PRC, as well as overseas to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea. We derived most of our revenue from our major customers in the PRC during the Track Record Period. Our customers in the PRC include members of one of the PRC Big-3 NOC, steel products, oil pipes and energy equipment manufacturers, OCTG manufacturers, OCTG processing factories and trading companies, and our overseas customers include oilfield equipment companies and trading companies during the Track Record Period. For each of FY2016, FY2017, FY2018 and 6M2019, our five largest customers accounted for approximately 66.7%, 56.0%, 50.0% and 58.2% of our total revenue, and our largest customer accounted for approximately 35.8%, 21.7%, 15.5% and 16.2% of our total revenue, respectively.

The following table sets forth a breakdown of our revenue by market during the years/periods indicated:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Domestic (the PRC)	667,550	89.3	2,186,639	96.0	2,831,305	91.5	1,308,158	96.0	1,336,726	92.6
Overseas: *(Note)*										
Oman	18,911	2.5	21,521	1.0	130,241	4.2	—	—	88,298	6.1
Others	61,406	8.2	68,714	3.0	133,277	4.3	54,791	4.0	18,976	1.3
	80,317	10.7	90,235	4.0	263,518	8.5	54,791	4.0	107,274	7.4
Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Note: During the Track Record Period, we had sold to over 10 countries and regions in worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

The increase in the revenue from the PRC market during the Track Record Period was mainly due to (i) increase in our selling price of our products along with market environment, increase in raw material prices and change of product mix; and (ii) the increase in sales volume driven by market demand and our ability to achieve high utilisation rate of our key production lines and thereby allowed us to achieve high production output.

Our revenue to overseas market for the FY2016 and FY2017 remained stable. Our revenue to overseas market for FY2018 increased by approximately RMB173.3 million, or approximately 192.0%, from approximately RMB90.2 million for FY2017 to RMB263.5 million for FY2018 mainly due to sales to two new overseas customers in respect of OCTG and other oil pipes to Egypt, Oman and Bahrain. The purchases made by these two customers accounted for approximately 95.6% of our overseas revenue for the FY2018. Our revenue to overseas market for 6M2019 increased by approximately RMB52.5 million, or approximately 95.8%, from approximately RMB54.8 million for 6M2018 to RMB107.3 million for 6M2019 mainly due to the increase in the sales to an overseas customer, which was one of our two new customers during FY2018 mentioned above, in respect of OCTG and other oil pipes to Oman and Bahrain.

Our suppliers

The principal raw materials we use for our production are scrap metal, which we source within the PRC. Under certain circumstances, we may also purchase OCTG for sale to our customers from suppliers who are Independent Third Parties. Please refer to the section headed "Business — Our Business Model" for further details of the OCTG which we purchase from our suppliers. For each of FY2016, FY2017, FY2018 and 6M2019, our five largest suppliers accounted for approximately 78.1%, 63.7%, 40.5% and 65.4% of our total purchase costs, and our largest supplier accounted for approximately 36.7%, 28.7%, 9.2% and 21.2% of our total purchase costs, respectively.

The principal components of our cost of sales

The following table sets forth the principal components of our cost of sales for the years/periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Direct material costs and purchase costs	469,870	67.0	1,206,632	65.7	1,730,373	69.1	699,709	65.4	828,597	70.4
Labour costs	33,937	4.8	53,639	2.9	85,542	3.4	40,157	3.8	48,955	4.2
Depreciation	57,182	8.1	53,987	2.9	54,126	2.2	28,253	2.6	33,569	2.8
Utilities	76,775	10.9	250,855	13.7	290,396	11.6	141,300	13.2	145,340	12.3
Others	63,891	9.2	270,087	14.8	342,907	13.7	161,071	15.0	120,739	10.3
Total	701,655	100.0	1,835,200	100.0	2,503,344	100.0	1,070,490	100.0	1,177,200	100.0

Our pricing

We have a comprehensive product pricing system which focuses on the differentiation of users and products, the pricing of our competitors and market share. For our domestic sales to customers other than members of one of the PRC Big-3 NOC, we generally adopt a market-oriented pricing approach to ensure the competitiveness of our products in pricing.

For our domestic sales of OCTG and other oil pipes to the members of one of the PRC Big-3 NOC, we shall negotiate with such PRC Big-3 NOC to arrive at an agreed price list for our products during the first quarter of each year or when new products are being introduced by us, and such agreed price list will be applicable to all members of such PRC Big-3 NOC. Prices on the price list are determined with reference to, mainly, the costs of raw materials, market prices, competitiveness of our prices and market conditions.

The OCTG and other oil pipes we sell to overseas are customised products in general. Each of purchase orders from our overseas customers are priced having considered the technical and production requirements. Pricing of the products we sell to our overseas customers is subject to review by our finance department.

Existing Production Facilities

As at the Latest Practicable Date, we operated two production facilities and one warehouse in the PRC. Our Xinhua District Factory, where our OCTG production line was located during the Track Record Period, has been closed down after the relocation of our existing OCTG production line to our Bohai New District Factory in September 2019. Please refer to the section headed "Business — Production — Existing Production Facilities" for further details of our production facilities.

COMPETITIVE STRENGTHS

We attribute our success to several principal competitive strengths which will enable us to maintain our leading position in the market and bolster our future prospects: (i) we are a leading OCTG manufacturer among private-owned manufacturers in the PRC with a long-standing track record and well-established reputation in the industry; (ii) our strong full production chain capabilities enable us to offer quality and value-for-money products to our customers; (iii) our production equipment demonstrates high level of automatisation, informatisation and intellectualisation; and (iv) we have experienced management with a proven track record.

COMPETITIVE LANDSCAPES

The entry barrier of the PRC's OCTG market is relatively high, leading to a high market concentration. The sales value of overall OCTG products of the top 10 companies in 2018 accounted for approximately 86.0% of the total market share. Please refer to the section headed "Industry Overview — Competitive Analysis of OCTG Market in the PRC" for further details of the competitive landscape of our business.

BUSINESS STRATEGIES

Our principal goal is to maintain and strengthen our position as a leading OCTG manufacturer among private-owned manufacturers in the PRC. To meet our goal, we intend to implement the following key business strategies: (i) to expand our production capacity; (ii) to further strengthen our relationships with key customers, expand our customer base and further expand our sales to overseas markets; and (iii) to further strengthen our product research and development and innovation capabilities. It is expected that our strategy to expand our production capacity for OCTG and other oil pipes significantly will be one of our major growth drivers, as it will enable us to capitalise on the increasing demands for OCTG and other oil pipes.

PROPERTIES

Following discussion with local government authority, it is expected that the land resumption will take place progressively. In particular, we have entered into a formal land resumption compensation agreement for the first parcel of land with total site area of approximately 66,700 sq.m. at which our Xinhua District Factory was situated ("**Xinhua Land**") with the relevant government authority in September 2019. Pursuant to such agreement we will receive land resumption compensation and the related payments in the amount of approximately RMB205.6 million. The payment of the land resumption compensation and related payments will be made in two installments. The first installment of RMB150.0 million has been paid to us shortly after the execution of the agreement and the second installment for the remaining amount of approximately RMB55.6 million will be paid within five business days after the keys to the relevant properties have been provided to the relevant government authority. We had completed the relocation of our production facilities at our Xinhua District Factory and the title certificates of the Xinhua Land had been surrendered to the relevant government authority. The remaining part of the land of our Xinhua District Factory with a total site area of approximately 12,300 sq. m., on which our former office building was located and which does not affect the overall relocation plans of the local government of Cangzhou City of the PRC, will be retained by us. It is expected that we may further be paid an incentive subsidy upon the relevant government authority has sold the respective land.

However, we were unable to ascertain the amount of the incentive subsidy and the timing of payment as at the Latest Practicable Date. For the resumption of the remaining part of the land with total site area of approximately 111,700 sq.m., on which our Xinhua District Warehouse is located, we were still pending for the relevant government authority to inform us as to the expected timeframe and the compensation and subsidy payment terms as at the Latest Practicable Date. For further details, please refer to the section headed "Business — Properties".

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, we will be owned as to approximately 47.1% by Rosy Astral. Rosy Astral is an investment holding company and is owned as to approximately 80.6% by Mr. Meng and 19.4% by Mr. YX Meng. For the purpose of the Listing Rules, Rosy Astral, Mr. Meng and Mr. YX Meng are a group of Controlling Shareholders. None of our Controlling Shareholders and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules. Please refer to the section headed "Relationship with Our Controlling Shareholders" for details.

PRE-IPO INVESTMENT

On 9 January 2019, (i) Mr. Yau as investor; and (ii) our Company entered into a subscription agreement pursuant to which Mr. Yau agreed to subscribe for 30,000 Shares (representing 3.0% of the then enlarged issued share capital of our Company). As a result, Mr. Yau became a Shareholder. Mr. Yau is a strategic investor and has been operating energy business in the PRC for over 15 years. The Shares held by Mr. Yau as of the Listing Date will not be subject to lock-up.

PRE-IPO SHARE OPTION SCHEME

We adopted the Pre-IPO Share Option Scheme and options to subscribe for an aggregate of 45,000,000 Shares, representing 3.0% of the issued Shares immediately following completion of the Global Offering and Capitalisation Issue, but without taking into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option and any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, were granted by our Company under the Pre-IPO Share Option Scheme on 8 October 2019. If all options granted under the Pre-IPO Share Option Scheme are exercised, this would have a dilutive effect on the shareholding and earnings per Share of our Shareholders of approximately 2.9%. Please refer to the section headed "Appendix V — Statutory and General Information — Other Information — 16. Pre-IPO Share Option Scheme" for further details.

KEY FINANCIAL INFORMATION

Our key financial data set forth below has been derived from the Accountants' Report set out in Appendix I and should be read in conjunction with our financial information included in "Appendix I — Accountants' Report" including the accompanying notes and the information set forth in the section headed "Financial Information".

Key consolidated statements of profit or loss and other comprehensive income information

	For the year ended 31 December			For the six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	747,867	2,276,874	3,094,823	1,362,949	1,444,000
Gross profit	46,212	441,674	591,479	292,459	266,800
Other income *(Note)*	19,053	11,375	5,326	5,998	4,480
Profit/(loss) before taxation	(63,018)	274,312	355,260	190,637	143,824
Profit/(loss) and total comprehensive income for the year/period	(52,965)	232,209	301,198	161,920	117,032

Note: Other income mainly comprises of government grant (including amortisation of deferred income), and also includes, among others, interest income, rental income from operating leases, net gain or loss on disposal of property, plant and equipment, and net foreign exchange gain or loss. For each of FY2016, FY2017, FY2018 and 6M2019, government grants included in other income amounted to approximately RMB10.4 million, RMB9.5 million, RMB1.3 million and RMB1.4 million, respectively.

Our profit and total comprehensive income for the period decreased by approximately RMB44.9 million, from approximately RMB161.9 million for 6M2018 to approximately RMB117.0 million for 6M2019. The decrease in profit and total comprehensive income for 6M2019 as compared to 6M2018 was primarily due to the decrease in gross profit by approximately RMB25.7 million for the reasons as discussed above, the incurrence of listing expenses of approximately RMB11.1 million and the withholding tax in connection with the distribution of retained profits by a subsidiary of the Company of approximately RMB5.2 million. As a result of which our net profit margin decreased from approximately 11.9% for 6M2018 to approximately 8.1% for 6M2019.

Key consolidated statements of financial position information

	As at 31 December			As at 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	1,175,732	1,150,473	1,561,212	1,792,267
Current assets	688,074	1,391,826	1,555,883	1,786,544
Current liabilities	892,799	1,289,243	2,044,047	1,934,660
Net current (liabilities)/assets	(204,725)	102,583	(488,164)	(148,116)
Total assets less current liabilities	971,007	1,253,056	1,073,048	1,644,151
Net assets	654,181	886,390	762,542	896,366

Our net assets decreased by approximately RMB123.8 million as at 31 December 2018 as compared with that as at 31 December 2017 was primarily due to our declaration of dividend amounted to approximately RMB453.0 million which was partially offset by the profit and total comprehensive income for the year ended 31 December 2018 of approximately RMB301.2 million. Our net asset increased by approximately RMB133.8 million as at 30 June 2019 as compared with that as at 31 December 2018 was primarily due to the profit and total comprehensive income for the year of approximately RMB117.0 million and issuance of shares of approximately RMB16.8 million.

Key consolidated cash flow statements

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating cash flow before changes in working capital	48,735	395,783	490,658	254,847	216,594
Net cash generated from/(used in) operating activities	(19,200)	(12,601)	186,793	243,185	74,043
Net cash used in investment activities	(29,046)	(77,198)	(504,486)	(142,046)	(219,866)
Net cash generated from/(used in) financing activities	(44,000)	230,907	286,584	(114,176)	360,244
Net (decrease)/increase in cash and cash equivalents	(92,246)	141,108	(31,109)	(13,037)	214,421
Effect of exchange rate changes	(393)	375	(362)	(76)	111
Cash and cash equivalents at the beginning of the year	113,245	20,606	162,089	162,089	130,618
Cash and cash equivalents at the end of the year	20,606	162,089	130,618	148,976	345,150

We recorded net cash used in operating activities for FY2016 mainly because (i) we incurred a net loss in FY2016 as a result of the relatively less favourable market conditions of the OCTG industry and the transition period of the integration of production of other oil pipes into our Group and more resources were allocated to such integration which affected the overall performance of our Group; (ii) upon completion of the integration of production of other oil pipes into our Group close to the end of FY2016, more sales were made in the year end and significant amount of trade receivables were recognised and not settled before year end, which led to increase in trade and bills receivables; and (iii) while satisfying the increased sales order near the end of FY2016, production and purchase of raw materials were made before that, and we had to settle larger amount of purchase of raw materials close to the year end, which, in turn, led to the increase in inventory and decrease in trade and bills payables.

We recorded net cash used in operating activities for FY2017 mainly because of (i) the increase in inventories primarily as a result of the increase in price of raw materials and increase in our production along with increase in sales; (ii) the increase in trade and bills receivables, in particular, the increase in balance of bills receivables as a result of the increase in sales of OCTG and other oil pipes to members of one of the PRC Big-3 NOC as such customers increased settlement of their payments by way of acceptance bills; and (iii) increase in restricted deposits primarily as a result of increase in interest-bearing bank borrowings.

Integration of production of other oil pipes into our Group

We achieved full integration of our business model covering production of pipe billets, other oil pipes and OCTG by end of 2016. Before the integration of production of other oil pipes into our Group, we only had capabilities in the production of pipe billets and OCTG. In the absence of other oil pipes production lines, we could not achieve an integrated business model that provides full range of production. In August 2014, Hebei Litonglian, which had been producing ordinary structural tubes and fluid tubes, transferred certain land use rights and business assets to our Group. Between August 2014 and October 2014, we conducted preparation works, such as recruiting the relevant staff and activating machineries, to prepare for the transformation of the production facilities for integration into our business model. As the production facilities were originally used by Hebei Litonglian mainly for production of ordinary structural tubes and fluid tubes, in order to transform such production facilities so as to fit our production needs for manufacturing pipes for use in oil exploration, during the period from October 2014 to December 2016, we performed certain improvement and transformation works on the relevant production facilities before we achieve full integration by end of 2016. For details of the major events leading to such integration, please refer to the section headed "Financial Information — Key Information Affecting Our Results of Operations and Financial Conditions — Integration of production of other oil pipes into our Group".

It took time and resources for our Group to identify any deficiency in the existing production facilities at Gaoxin District Factory, to conduct feasibility study on the improvement and transformation (including adjustment and transformation of not only the other oil pipes production line, which eventually its other oil pipes could be used to produce OCTG, but also the pipe billets production line in order for it to be able to manufacture pipe billets with specification which could match the specification requirement of the other oil pipes production line for further processing into other oil pipes), and to implement such improvement and transformation before the operation of such production facilities can be fully integrated into our business model and can be operated smoothly. The unreliability and uncertainty in efficiently and effectively utilising the production capacity of the production facilities at Gaoxin District Factory from time to time before completion of these improvement and transformation works on both the pipe billets production line (for example, some of the specification of pipe billets were adjusted to suit the production requirement of other oil pipes) and the other oil pipes production line had also disturbed the procurement and production plans of all production lines of our Group, adversely affected the overall performance of our Group and as a combined effect of the relatively less favourable market condition in 2016, resulting in our net loss in FY2016. For details of the impact on our operational and financial performance associated with such integration, please refer to the section headed "Financial Information — Review of Historical Operating Results — Period to period comparison of results of operations — Year ended 31 December 2017 compared to year ended 31 December 2016".

Key financial ratios

	As at/For the year ended 31 December			As at/For the six months ended 30 June
	2016	2017	2018	2019
Current ratio	0.8 times	1.1 times	0.8 times	0.9 times
Debt to asset ratio	44.1%	43.6%	53.1%	57.4%
Debt to equity ratio *(Note 1)*	107.4%	80.4%	165.7%	175.3%
Interest coverage	N/A	5.8 times	5.9 times	5.1 times
Return on total assets	N/A	10.5%	10.6%	N/A *(Note 2)*
Return on equity	N/A	30.1%	36.5%	N/A *(Note 2)*
Gross profit margin	6.2%	19.4%	19.1%	18.5%
Net profit margin	N/A	10.2%	9.7%	8.1%

Notes:

1. Debt to equity ratio is calculated by the net debt (total debts being the total interest-bearing bank borrowings and loan from a related party net of cash at bank and on hand) divided by the total equity as at the respective year/period end and multiplied by 100%.

2. The semi-annual number is not meaningful as it is not comparable to annual number.

Please refer to the section headed "Financial Information — Summary of Financial Ratios" for the details of our key financial ratios.

NET CURRENT LIABILITIES AND WORKING CAPITAL SUFFICIENCY

As at 31 December 2016, 31 December 2018, 30 June 2019 and 31 August 2019, we had net current liabilities of approximately RMB204.7 million, RMB488.2 million, RMB148.1 million and RMB166.2 million, respectively. We recorded net current liabilities during the Track Record Period mainly because we have used short-term interest-bearing bank borrowings to finance our general working capital needs and capital expenditure. We recorded net current liabilities as at 31 December 2016 mainly because of (i) our net cash used in operating activities in FY2016; (ii) our payments for acquisition of property, plant and equipment and lease prepayments; and (iii) the current portion of long-term bank loans that became due within one year after 31 December 2016. Our net assets decreased by approximately RMB123.8 million as at 31 December 2018 as compared with that as at 31 December 2017 was primarily due to our declaration of dividend amounted to approximately RMB453.0 million which was partially offset by the profit and total comprehensive income for the year ended 31 December 2018 of approximately RMB301.2 million. We recorded net current liabilities as at 31 December 2018 primarily due to (i) increase in other payable and accruals arising from the dividend payable, which was declared in FY2018 and is expected to be paid in full prior to Listing; (ii) increase in short-term interest-bearing bank borrowings and increase of current portion of long-term bank loans, both of which were to support our operating, business development and Phase One Expansion of our Bohai New District Factory. Our net current liabilities decreased as at

30 June 2019 primarily due to (i) we have generated net operating cash inflow of approximately RMB74.0 million; and (ii) we were able to obtain new long-term bank loans or restructure short-term and long-term loan composition to finance our operation. Our net current liabilities increased to approximately RMB166.2 million as at 31 August 2019. Please refer to the section headed "Financial Information — Liquidity and Capital Resources — Net Current Assets and Liabilities" for further details. Taking into account the net proceeds to be received from the Global Offering, we expect our debt to equity ratio immediately upon Listing will be less than 86.0%. Our Directors confirm that (i) we will continue to closely monitor our net current liabilities position and optimise the composition of our indebtedness in order to achieve net current assets position; and (ii) when any of the above-mentioned short-term or current portion of long-term interest-bearing bank borrowings become due, we will either use our internally generated cash to repay them and/or refinance such short-term or current portion of long-term interest-bearing bank borrowings with long-term interest-bearing bank borrowings.

Our Group had recorded loss and total comprehensive income for the year of approximately RMB53.0 million during FY2016. Such loss was primarily due to the relatively less favourable market conditions of the OCTG industry and the process of integration of the production lines of other oil pipes into our Group during that year, which required us to allocate more resources for the implementation of such process and in turn adversely affected the utilisation of our pipes billets production capacity and the overall performance of our Group during the year. Following the integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG by end of 2016, it allowed us to satisfy the demand from our customers on different types of products. Riding on the favourable market conditions, and consequently the economies of scale due to the increase in our utilisation rate of our production lines, we were able to achieve significant growth in our revenue and profitability in FY2017 and FY2018 and reach the net profit of approximately RMB232.2 million and RMB301.2 million for FY2017 and FY2018 respectively. Please refer to the sections headed "Industry Overview — Overview of the OCTG Market in the PRC" for details of the historical trend of the market size of the OCTG industry in the PRC and "Financial Information — Review of Historical Operating Results — Period to period comparison of results of operations" for discussion on our financial performance during the Track Record Period.

Our Directors are of the opinion that, taking into account the financial resources available to our Group, including the existing balance of cash and cash equivalents, unutilised bank facilities, the internally generated funds, additional bank and debt financing we would be able to obtain and the estimated net proceeds to be received by us from the Global Offering, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the past five years, the Group has entered into U.S. dollar-denominated transactions in relation to Iran. As advised by our International Sanctions Legal Advisers, such transactions appear to be violations of U.S. primary sanctions laws. We had filed a VSD covering such apparent violations and had cooperated fully with the U.S. government in resolving this matter. On 2 April 2019, OFAC issued a cautionary letter to Dalipal Pipe which, as advised by our International Sanctions Legal Advisers, represents a final enforcement response to the apparent violations disclosed in the VSD.

During the Track Record Period, we had also engaged in non-U.S. dollar denominated sales and deliveries of oil pipes products to Iran, a comprehensively sanctioned country, which sales and deliveries were Transactions subject to Secondary Sanctions Exposure. However, as advised by our International Sanctions Legal Advisers, considering (i) the historical nature and limited materiality of these Transactions subject to Secondary Sanctions Exposure; (ii) the business relationships we engaged in with the parties in the Transaction do not appear to be sufficiently material to warrant a designation by U.S. authorities; (iii) our active cooperation with OFAC; and (iv) that we have ceased all business transactions with Iran, there does not appear to be a significant degree of likelihood that OFAC would pursue restrictive actions against our Group under secondary U.S. sanctions at this time. Please refer to the sections headed "Business — Business Activities in Countries Subject to International Sanctions", "Risk Factors — Risk Relating to Our Business and Industry — We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities" and "We have during the Track Record Period engaged in sales and deliveries of oil pipe products to comprehensively sanctioned countries; as a result, we could be subject to liabilities associated with secondary sanctions violations" for further details.

Commencing from June 2018, all of our sales transactions relating to Iran had been completed. Further, we have no present intention to undertake any future business with persons on the SDN Lists, any business connected to any comprehensively sanctioned countries, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers in Countries subject to International Sanctions of any kind, we will implement internal control measures to minimise our risk exposure to international sanctions.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business model has remained unchanged since 30 June 2019. Based on the unaudited financial information currently available to us, our revenue and cost structure has remained stable since 30 June 2019. During the two months ended 31 August 2019, the quantities of OCTG and other oil pipes manufactured and sold by us had increased as compared to the corresponding period in FY2018, while the quantities of pipe billets which we had sold decreased as compared to the corresponding period in FY2018. Less pipe billets were sold by us because there was an increased amount of pipe billets that was utilised internally to satisfy the increased demands for our OCTG and other oil pipes from our customers.

The construction of our production facilities, which includes a new OCTG production line and a new other oil pipes production line with annual production capacity of 100,000 tonnes and 300,000 tonnes, respectively, in our Bohai New District Factory for our Phase One Expansion was completed in August 2019. The commercial production of our OCTG production line constructed under Phase One Expansion commenced in early September 2019. In light of the smooth operation of the new OCTG production line constructed in our Bohai New District Factory under Phase One Expansion during the trial run since April 2019 and to avoid any interruption to our production, we have gradually relocated and consolidated our existing OCTG production line from our Xinhua District Factory to the new OCTG production line at our Bohai New District Factory since the end of June 2019. The relocation was completed in September 2019 and had no material impact on our production, sales and ability to satisfy the demands from our customers.

Further, the commercial production of our other oil pipes production line constructed under Phase One Expansion with annual production capacity of 300,000 tonnes commenced in September 2019.

Despite the decrease in gross profit, gross profit margin and profit and total comprehensive income for 6M2019 as compared to 6M2018, the Company expects growth in its profitability, including the gross profit, gross profit margin and net profit, in the future, having taken into account the following factors:

(i) the continuous growth of the oilfield services and equipment industry and the demand for OCTG in the PRC. In particular, according to CIC Report, the market size of the oilfield services and equipment industry in the PRC, as measured by the exploration and development capital expenditures of the PRC Big-3 NOC, is estimated to increase from approximately RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, at a CAGR of approximately 5.5%. Furthermore, demand for OCTG in the PRC in terms of sales value is estimated to increase from approximately RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, at a CAGR of approximately 5.6%;

(ii) we believe we will be able to transfer any significant increase in raw material cost through the increase in selling price of our OCTG and other oil pipes under the current pricing mechanism. Pursuant to the pricing policy between us and one of the PRC Big-3 NOC, with details set out in the section headed "Business — Customers — Pricing policy", the selling price of our OCTG and other oil pipes to such PRC Big-3 NOC shall be determined during the first quarter of each year with reference to, amongst others, the costs of raw materials and the market conditions. Such agreed price list is generally valid for a period of one year and no adjustment will be made to the price list if the fluctuation in the cost of raw material is considered to be temporary or immaterial. Any temporary fluctuation in the purchase cost of raw material, whether positive or negative, may have an impact on our gross profit and gross profit margin in the short-term.

    The historical price fluctuation of plain-end pipes and OCTG was generally in line with that of scrap material with details set out in the section headed "Industry Overview". According to the CIC Report, in order to maintain supply chain stability, the PRC Big-3 NOC will ensure their upstream suppliers can maintain a reasonable margin. They will review their suppliers' raw material cost periodically and adjust their purchasing price of oilfield services and equipment when necessary. Therefore, if there are any material fluctuations or prolonged increase or decrease in the raw material cost, the PRC Big-3 NOC will negotiate with its suppliers a revised price list in response to the change in market condition. In the past where there have been material fluctuations in the raw material cost, the PRC Big-3 NOC has adjusted the prices of our OCTG and other oil pipe by revising the price list with us.

    As such, we believe we are able to maintain our profitability for the sale of OCTG and other oil pipes (including both standard and high-end products) in the long-run based on the past experience of our Directors;

(iii) upon completion of Phase One Expansion and commencement of commercial production of the OCTG and other oil pipes production lines at our Bohai New District Factory in September 2019, the designed annual production capacity for our OCTG and other oil pipes production line increased from 200,000 tonnes and 250,000 tonnes to 300,000 tonnes and 550,000 tonnes, respectively. Production capacity of OCTG and other oil pipes will further increase upon completion of Phase Two Expansion, which will enable us to capture additional demand from the market.

Although sales of pipe billets are expected to decrease as more pipe billets manufactured by us will be reserved for internal production of OCTG and other oil pipes in the future, the impact of such decrease is expected to be offset by the increase in sales volume of both OCTG and other oil pipes (which have a higher gross profit margin as compared to pipe billets);

(iv) apart from the change in product mix among OCTG, other oil pipes and pipe billets, the increased production capacity for OCTG will also improve our capability in manufacturing high-end OCTG, which are sold at higher average selling price than that with standard specifications and generally have higher gross profit margin. Coupled with the smart production system equipped at the new OCTG production line at our Bohai New District Factory which will further enhance our production quality, cost-effectiveness and efficiency, it is expected that completion of our Phase One Expansion will have a positive impact on our gross profit margin; and

(v) it is expected that following the increase in production capacity upon completion of our Phase One Expansion and Phase Two Expansion, we will gradually reduce the purchase of OCTG from our suppliers. This will further enhance our profitability as production cost of OCTG is generally lower than the purchase cost of OCTG from third-party suppliers.

Our Directors confirmed that, since 30 June 2019 and up to the date of this prospectus, (i) there had been no material adverse changes in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DIVIDENDS AND DIVIDEND POLICY

For each of FY2016, FY2017, FY2018 and 6M2019, we declared dividend of nil, nil, approximately RMB453.0 million and nil. Approximately RMB221.2 million of the dividend declared in FY2018 had been settled during such year. The remaining dividend of approximately RMB231.8 million declared in FY2018 is expected to be paid in full prior to Listing.

Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Company considers stable and sustainable returns to our Shareholders to be our goal. We currently target to distribute to our Shareholders dividends not less than 40% of our Group's net profit (excluding net profit attributable to government compensation, allowance, incentive and/or subsidy in relation to the land and building resumption and/or relocation of our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse) for the year attributable to equity shareholders of our Company in each financial year, commencing from the financial year ending 31 December 2019. In deciding whether to propose a dividend and in determining the dividend amount, our Directors will take into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time.

GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK$1.59 per Offer Share	**Based on an Offer Price of HK$1.83 per Offer Share**
Market capitalisation *(Note 1) (HK$)*	2,385 million	2,745 million
Unaudited pro forma adjusted net tangible assets per Share *(Note 2) (HK$)*	0.96	1.00

Notes:

(1) The calculation of market capitalisation is based on 1,500,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which were or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme).

(2) The unaudited pro forma adjusted net tangible assets per Share are calculated after making the adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information" and on the basis of 1,500,000,000 Shares expected to be in issue immediately upon completion of the Global Offering and the Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option which were or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme).

LISTING EXPENSES

Assuming that the Over-allotment Option is not exercised, the listing expenses in connection with Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.71 per Share, being the mid-point of the proposed Offer Price range, are estimated to be RMB45.7 million. During the Track Record Period, we incurred listing expenses of approximately RMB23.7 million, of which approximately RMB7.6 million and RMB11.1 million was recognised in the consolidated statement of profit and loss and other comprehensive income for FY2018 and 6M2019, respectively, and approximately RMB5.0 million was recognised as prepayments in the consolidated statement of financial position as at 30 June 2019, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB22.0 million prior to and upon completion of Listing, of which (i) RMB8.8 million is expected to be recognised as expenses in our consolidated statement of profit and loss and other comprehensive income for the year ending 31 December 2019; and (ii) RMB13.2 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be affected by the listing expenses mentioned above. Please refer to the section headed "Financial Information — Listing Expenses" for further details.

USE OF PROCEEDS

We estimate that the net proceeds (i.e. gross proceeds net of the underwriting fees and commission and the estimated expenses payable by our Company) from the issue of the Offer Shares will be approximately HK$461.4 million (equivalent to RMB415.3 million), based on an Offer Price of HK$1.71 per Offer Share (being the mid-point of the indicative Offer Price range set forth on the "Important" page of this prospectus) and assuming that the Over-allotment Option is not exercised at all. We currently intend to apply such net proceeds from the Global Offering for the following purposes:

Use of proceeds		% of net proceeds	HKD million	(equivalent to RMB million)
		(approximately)	*(approximately)*	*(approximately)*
(i)	Phase Two Expansion	88.4%	407.9	367.1
(ii)	Strengthen our product research and development and innovation capabilities	2.4%	11.1	10.0
(iii)	Strengthen our relationships with key customers, expand our customer base and further expand our sales to overseas markets	2.0%	9.2	8.3
(iv)	General replenishment of working capital and other general corporate purpose	7.2%	33.2	29.9

Please refer to the section headed "Future Plans and Use of Proceeds" for further details.

REASONS FOR LISTING

Our Directors consider that the Listing will benefit our Group in (i) strengthening our financial position and enhance our working capital; (ii) enhancing our corporate profile; (iii) diversifying the shareholder base and have more liquidity in trading of Shares; and (iv) recognising and rewarding the contribution of certain directors, senior management and employees. Please refer to the section headed "Future Plans and Use of Proceeds — Reasons for Listing" for further details.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our business operations had complied with all applicable laws, rules and regulations in all material respects save for certain incidents, including, lack of construction project commencement permit before the commencement of building construction, and commencement of use prior to passing the acceptance checks for completed construction project, for certain of our buildings located in our Bohai New District Factory. As at the Latest Practicable Date, we had rectified both of these non-compliances and obtained confirmation from the competent government authorities confirming that we would not be penalised with respect to these non-compliances. Please refer to the section headed "Business — Non-compliance" for further details.

RISK FACTORS

There are certain risks involved in our operations which may be beyond our control. These risks are further described in the section headed "Risk Factors". You should read the entire section carefully before deciding whether to invest in the Offer Shares. Major risks we face include (i) we derive a significant portion of our revenue mainly from the PRC; (ii) changes in government policies in the PRC, fluctuation in market demand for and/or prices of oil may affect the performance of oil and OCTG industries, and the demand for our products may be thereby affected; (iii) an increase in costs of principal raw materials or our inability to procure production materials at satisfactory prices may adversely affect our profitability; (iv) the selling price of our products may decrease; (v) we experienced net losses in the past and such may expose us to certain liquidity risks and could constrain our operational flexibility as well as materially and adversely affect our ability to expand our business; (vi) competition in our industry, and failure to compete effectively may adversely affect our business and prospects; (vii) our investment in the development of new technologies may not lead to commercial success; (viii) our production expansion plan may result in over-capacity, significant increase in our cost of sales, depreciation resulting from capital expenditure and may affect our operations, financial conditions and our revenue and profit may not increase proportionally to our increased capacity; (ix) we are subject to risk of inventories obsolescence; (x) a material disruption to our operations may adversely affect our revenue and profits; and (xi) we are vulnerable to the delay or rescheduling of oil and gas exploration and production projects.

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings. Certain other terms are defined in the section headed "Glossary of Technical Terms" in this prospectus.

"Accountants' Report"	the accountants' report on our Group for the Track Record Period set out in Appendix I to this prospectus
"Agile Rise"	AGILE RISE GLOBAL LIMITED, a company incorporated in the BVI with limited liability on 26 April 2018 and a direct wholly owned subsidiary of our Company
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"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
"Beauty Bright"	BEAUTY BRIGHT GROUP LIMITED (麗明集團有限公司), a company incorporated in the BVI with limited liability on 19 September 2018 and a direct wholly owned subsidiary of our Company
"Board"	the board of Directors
"Bohai New District Factory"	our factory located in Bohai New District, Cangzhou, Hebei Province, the PRC
"Business Day"	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
"CAGR"	compound annual growth rate, a measurement to assess the growth rate of value over time
"Cangzhou Offices"	our administrative offices located at Rooms 1601–1604 of Guan Ye Building, Beijing Road and East of Community Service Centre, Cangzhou, Hebei Province, PRC
"Capitalisation Issue"	the issue of 1,199,000,000 new Shares to be made upon capitalisation of an amount of HK$119,900,000 standing to the credit of the share premium account of our Company as referred to in the section headed "Appendix V — Statutory and General Information — Further Information About Our Group — 3. Resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019"

"Cayman Islands Companies Law" or "Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant(s)"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant(s)"	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant
"CIC"	China Insights Consultancy, an independent market research and consulting company which prepared the CIC Report
"CIC Report"	an independent market report commissioned by us and prepared by CIC in relation to, among other things, the OCTG market in the PRC
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CNAS"	China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)
"CNOOC"	China National Offshore Oil Corporation (中國海洋石油集團有限公司)
"CNPC"	China National Petroleum Corporation (中國石油天然氣集團有限公司)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"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
"Complete Glory"	COMPLETE GLORY GROUP LIMITED (榮全集團有限公司), a company incorporated in Hong Kong with limited liability on 19 October 2018 and an indirect wholly owned subsidiary of our 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. Please refer to the section headed "Relationship with Our Controlling Shareholders" for further details
"core connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Countries subject to International Sanctions"	countries regarding which governments such as the United States or Australia, or governmental organisations, such as the European Union or the United Nations, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries
"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 the branch office of Dalipal Pipe located in our Bohai New District Factory and which was in the course of voluntary deregistration as at the Latest Practicable Date
"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 Gaoxin Branch"	Dalipal Pipe Company Gaoxin District Branch Company* (達力普石油專用管有限公司高新區分公司) established on 18 August 2014 in the PRC, being the branch office of Dalipal Pipe located in our Gaoxin District Factory
"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 minority shareholder of Shengjie Pipe and a connected person of our Company by virtue of it being an associate of Mr. Meng, our executive Director
"Dalipal HK"	Dalipal Hong Kong Company Limited (達力普香港有限公司), a company incorporated in Hong Kong with limited liability on 19 September 2018 and an indirect wholly owned subsidiary of our Company

"Dalipal Industrial"	Dalipal (Cangzhou) Industrial Company Limited* (達力普(滄州)實業有限公司), a wholly foreign owned enterprise established under the laws of the PRC on 14 November 2018 and an indirect wholly owned subsidiary of our Company
"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 non-wholly owned subsidiary of our Company
"Dalipal Shengjie"	Dalipal Shengjie Company Limited (達力普盛捷有限公司) (formerly known as Dalipal Holdings Limited (達力普控股有限公司)), a company incorporated in Hong Kong with limited liability on 17 September 2018 and an indirect wholly owned subsidiary of our Company
"Dalipal Trading"	Dalipal (Hong Kong) Trading Company Limited (達力普(香港)貿易有限公司), a company incorporated in Hong Kong with limited liability on 4 February 2013 and an indirect non-wholly owned subsidiary of our Company
"Deed of Indemnity"	the deed of indemnity dated 8 October 2019 and executed by our Controlling Shareholders with and in favor of our Company (for ourselves and as trustee for our subsidiaries stated therein), details of which are set out in the section headed "Appendix V — Statutory and General Information — Other Information — 18. Estate duty, tax and other indemnity"
"Deed of Non-competition"	the non-compete undertaking dated 19 June 2019 and executed by our Controlling Shareholders in favour of our Company, details of which are set out in the section headed "Relationship with Our Controlling Shareholders — Deed of Non-Competition"
"Director(s)"	the director(s) of our Company
"DLP Investment"	DLP Investment Holdings (Hong Kong), Limited, a limited liability company incorporated under the laws of Hong Kong on 10 July 2007 and an Independent Third Party
"EIT"	the PRC enterprise income tax
"EIT Law"	the PRC Enterprise Income Tax Law (中華人民共和國企業所得税法), issued on 16 March 2007 and effective on 1 January 2008 and most recently amended on 29 December 2018
"FY2016"	the financial year ended 31 December 2016

"FY2017"	the financial year ended 31 December 2017
"FY2018	the financial year ended 31 December 2018
"Gaoxin District Factory"	our factory located in Taiyuan Road, Gaoxin District, Cangzhou, Hebei Province, the PRC (滄州市高新區太原路), which manufactures other oil pipes
"GDP"	gross domestic product, the market value of all the finished goods and services produced during a specified period of time
"GEM"	GEM of the Stock Exchange
"Global Offering"	the Hong Kong Public Offering and the International Placing
"Glorious Year"	GLORIOUS YEAR INVESTMENTS LIMITED (輝年投資有限公司), a company incorporated in the BVI with limited liability on 23 April 2018 and wholly owned by Mr. Jia, a minority Shareholder and an Independent Third Party
"**GREEN** Application Form(s)"	the application form(s) to be completed by **HK eIPO White Form** Service Provider designated by our Company
"Group" or "our Group" or "we" or "our" or "us"	our Company and its subsidiaries, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Hebei Litonglian"	Hebei Litonglian Wufeng Pipe Co., Ltd* (河北力通聯無縫鋼管有限公司), a limited liability company established under the laws of the PRC on 12 January 2006 and an Independent Third Party
"**HK eIPO White Form**"	the application for Hong Kong Public Offer Shares to be issued in the applicant's own name, submitted online through the designated website of the **HK eIPO White Form** at **www.hkeipo.hk**
"**HK eIPO White Form** Service Provider"	the **HK eIPO White Form** service provider designated by our Company, as specified on the designated website at **www.hkeipo.hk**
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited, being the Hong Kong branch share registrar of our Company

"Hong Kong dollars" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Public Offering"	the offer of the Hong Kong Public Offer Shares for subscription by members of the public in Hong Kong (subject to reallocation) for cash at the Offer Price, payable in full on application, and subject to the terms and conditions stated in this prospectus and in the Application Forms
"Hong Kong Public Offer Shares"	the 30,000,000 new Shares initially offered for subscription pursuant to the Hong Kong Public Offering, representing 10% of the total number of Offer Shares, subject to reallocation as described in the section headed "Structure and Conditions of the Global Offering"
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus
"Hong Kong Underwriting Agreement"	the conditional Hong Kong underwriting agreement dated 25 October 2019 entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Underwriters' Representative and the Hong Kong Underwriters relating to the Hong Kong Public Offering, as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement"
"IASB"	International Accounting Standards Board
"IFRS"	International Financial Reporting Standards
"Independent Third Party(ies)"	person(s) or company(ies) which is(are) not connected person(s) or core connected person(s) (both as defined in the Listing Rules) of our Company
"International Placing"	the conditional placing of the International Placing Shares at the Offer Price to professional, institutional, corporate and other investors, as described in the section headed "Structure and Conditions of the Global Offering"
"International Placing Agreement"	the conditional international placing underwriting agreement relating to the International Placing and expected to be entered into by our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Underwriters' Representative and the International Underwriters

"International Placing Shares"	the 270,000,000 new Shares, expected to be initially offered for subscription pursuant to the International Placing, representing 90% of the total number of the Offer Shares, subject to reallocation and the Over-allotment Option as described in the section headed "Structure and Conditions of the Global Offering"
"International Sanctions"	all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the U.S. Government, the European Union and its member states, United Nations or the Government of Australia
"International Sanctions Legal Advisers"	Hogan Lovells, our legal advisers as to International Sanctions laws
"International Underwriters"	the underwriters of the International Placing who are expected to enter into the International Placing Agreement
"Joint Bookrunners", "Joint Lead Managers"	CMBC Securities Company Limited, Guotai Junan Securities (Hong Kong) Limited, Essence International Securities (Hong Kong) Limited, Haitong International Securities Company Limited and Shanxi Securities International Limited
"Joint Global Coordinators"	CMBC Securities Company Limited and Guotai Junan Securities (Hong Kong) Limited
"Latest Practicable Date"	20 October 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Date"	the date, expected to be on or about 8 November 2019, on which our Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
"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
"Mulberry"	MULBERRY TREE INDUSTRIAL COMPANY LIMITED (木本植物蛋白科技有限公司), a company incorporated in Hong Kong with limited liability on 20 July 2017 and wholly owned by Mr. Yau, and an Independent Third Party
"Mr. Bai"	Mr. Bai Gongli (白功利), chief executive officer of our Group, one of the Polaris Shareholders
"Mr. Cheng"	Mr. Cheng Haitao (成海濤), an independent non-executive Director
"Mr. DL Chen"	Mr. Chen Delin (陳德林), one of the Polaris Shareholders and an Independent Third Party
"Mr. Guo"	Mr. Guo Kaiqi (郭開旗), an independent non-executive Director
"Mr. Jia"	Mr. Jia Peng (賈鵬), the sole shareholder of Glorious Year, a minority Shareholder and an Independent Third Party
"Mr. JX Xing"	Mr. Xing Jianxin (邢建新), one of the Polaris Shareholders and an Independent Third Party
"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. Peng"	Mr. Peng Shuyang (彭樹陽), an Independent Third Party
"Mr. SX Hou"	Mr. Hou Songxing (侯嵩興), one of the Polaris Shareholders and an Independent Third Party
"Mr. Wong"	Mr. Wong Jovi Chi Wing (王志榮), an independent non-executive Director
"Mr. XY Guo"	Mr. Guo Xueyong (郭學勇), one of the Polaris Shareholders and an Independent Third Party
"Mr. XZ Song"	Mr. Song Xingzhong (宋興忠), one of the Polaris Shareholders and an Independent Third Party
"Mr. Yau"	Mr. Yau Wing Hay Uri (尤永熙), a pre-IPO investor and an Independent Third Party

"Mr. Yin"	Mr. Yin Zhixiang (殷志祥), chief technical officer of our Group, an executive Director and one of the Polaris Shareholders
"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 a non-executive Director
"Ms. CP Ni"	Ms. Ni Chunping (倪春萍), one of the Polaris Shareholders and an Independent Third Party
"Ms. Gan"	Ms. Gan Shuya (干述亞), chief operating officer of our Group, an executive Director and one of the Polaris Shareholders
"Ms. Wong"	Ms. Wong Gianne (王千華) (formerly known as Wong Yuk Ki 王毓琦), finance and investor relations director of our Group and joint company secretary of our Company
"Ms. Xu"	Ms. Xu Wenhong (徐文紅), chief legal officer of our Group, an executive Director and one of the Polaris Shareholders
"Ms. YH Zhu"	Ms. Zhu Yuhui (朱玉慧), one of the Polaris Shareholders and an Independent Third Party
"OFAC"	the United States Department of Treasury's Office of Foreign Assets Control
"Offer Price"	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) to be determined in the manner described in the section headed "Structure and Conditions of the Global Offering"
"Offer Shares"	the Hong Kong Public Offer Shares and the International Placing Shares together, where relevant, with any additional Shares to be issued pursuant to the exercise of the Over-allotment Option
"OPEC"	Organisation of the Petroleum Exporting Countries
"Orbital"	Orbital International Limited (奧比達集團有限公司), a company incorporated in Hong Kong with limited liability on 2 June 2006 and wholly owned by Mr. Yau, and an Independent Third Party

"Over-allotment Option"	the option to be granted by our Company to the International Underwriters exercisable by the Underwriters' Representative on behalf of the International Underwriters under which we may be required to issue up to 45,000,000 additional new Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover any over allocation in the International Placing, details of which are described in the section headed "Structure and Conditions of the Global Offering — Over-Allotment Option"
"Part 561 List"	a program tag located at the end of a Sanctioned Person's entry on the SDN List which indicates that Sanctioned Person is listed on OFAC's list of foreign financial institutions subject to the Iranian Financial Sanctions Regulations, 31 C.F.R. Part 561
"Phase One Expansion"	our phase one production capacity expansion at our Bohai New District Factory, particulars of which are set out in the section headed "Business — Production — Production Expansion Plan"
"Phase Two Expansion"	our phase two production capacity expansion at our Bohai New District Factory, particulars of which are set out in the section headed "Business — Production — Production Expansion Plan"
"Polaris Shareholders"	collectively, Ms. Xu, Mr. Huang Zhiyu (黃志宇), Mr. XY Guo, Mr. Yin, Mr. XZ Song, Mr. JX Xing, Ms. CP Ni, Mr. Bai, Ms. Gan, Mr. Jia Zhenji (賈鎮基), Mr. DL Chen, Mr. SX Hou, Mr. Liu Ruixue (劉瑞學), Mr. Li Jinlong (李金龍), Ms. YH Zhu, Ms. Ma Congmin (馬聰敏), Ms. Wang Xiangdong (王向東), Ms. Tang Libing (唐麗兵), Mr. Zhang Baoming (張保明), Mr. Jin Mingde (金明德), Ms. Ye Qing (葉青), Mr. Li Nan (李楠), Mr. Chen Yuchuan (陳玉川), Mr. Mu Zengli (穆增利), Mr. Wei Fengjun (魏鋒軍), Mr. Liu Zeqi (劉澤起), Mr. Hu Xin (胡欣), Mr. Cui Jiaxun (崔嘉詢), Ms. He Chaoqiong (何朝琼), Mr. He Yansen (何燕森), Mr. Luo Yecheng (羅葉成), Mr. Li Xuejin (李學進), Mr. Cao Hongshu (曹洪書), Mr. Zhang Haotian (張浩天), Mr. Zhang Mingguang (張明光), Mr. Liu Hongjing (劉宏靖), Mr. Liu Ke (劉珂) and Mr. Xiang Guoqing (項國慶) who own the issued shares of Polaris Swift and brief details of the Polaris Shareholders are set out in the section headed "History, Reorganisation and Corporate Structure — Corporate Structure", and "Polaris Shareholder" means any one of them
"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 the Polaris Shareholders and a connected person of our Company by virtue of it being a substantial Shareholder
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus excludes Hong Kong, Macau and Taiwan

"PRC Legal Advisers"	Jingtian & Gongcheng, legal advisers to our Company as to PRC laws
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme approved and adopted by our Company on 19 June 2019, the principal terms of which are summarised under the section headed "Appendix V — Statutory and General Information — Other Information — 16. Pre-IPO Share Option Scheme"
"Price Determination Date"	the date, expected to be on or about Thursday, 31 October 2019 on which the Offer Price will be fixed and in any event, no later than Wednesday, 6 November 2019
"R&D"	research and development
"Regulation S"	Regulation S under the US Securities Act
"Reorganisation"	the corporate reorganisation of our Group in preparation for the Listing, as set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation"
"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 approximately 80.6% by Mr. Meng, approximately 19.4% by Mr. YX Meng, being one of our Controlling Shareholders
"SAFE"	The State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sanctioned Person(s)"	certain person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, European Union, United Nations or Australia
"SDN List"	the list of Specially Designated Nationals and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealing with U.S. persons
"SFC"	the Securities and Futures Commission of Hong Kong
"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
"Share Option Scheme"	the share option scheme conditionally approved and adopted by us on 19 June 2019, a summary of its principal terms is set out in the section headed "Appendix V — Statutory and General Information — Other Information — 17. Share Option Scheme"
"Shengjie Pipe"	Shengjie (Cangzhou) Oil Pipe Company Limited* (盛捷(滄州)石油管有限公司), a limited liability company established under the laws of the PRC on 16 November 2018 and an indirect non-wholly owned subsidiary of our Company
"Sinopec"	China Petroleum and Chemical Corporation (中國石油化工集團公司)
"Sole Sponsor"	CMBC International Capital Limited
"sq.m."	square metres
"Stabilising Manager"	CMBC Securities Company Limited
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between the Stabilising Manager and Rosy Astral, pursuant to which the Stabilising Manager may borrow up to an aggregate of 45,000,000 Shares to cover any over allocation in the International Placing
"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
"Takeovers Code"	The Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
"Track Record Period"	the financial period comprising FY2016, FY2017, FY2018 and 6M2019
"Transactions subject to Secondary Sanctions Exposure"	our non-U.S. dollar denominated sales and deliveries of oil pipes products to Iran, a comprehensively sanctioned country
"Underwriters"	collectively, the Hong Kong Underwriters and the International Underwriters
"Underwriters' Representative"	CMBC Securities Company Limited
"Underwriting Agreements"	collectively, the Hong Kong Underwriting Agreement and the International Placing Agreement

"US" or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$", "US dollars" or "USD"	United States dollars, the lawful currency of US
"US Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated under it
"VSD"	A voluntary self-disclosure filed with OFAC relating to the U.S. dollar-denominated transactions in relation to Iran on 1 February 2019
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be issued in the applicant's own name
"Xinhua District Factory"	our factory located in Gongnong Road Factory District, Xinhua District, Cangzhou, Hebei Province, the PRC (滄州市新華區工農路廠區), which manufactures casing
"Xinhua District Warehouse"	our factory located in San Lizhuang, Xinhua District, Cangzhou, Hebei Province, the PRC (滄州市新華區三里莊), which is primarily used as our warehouse
"Xuanxiang Pipe"	Xuanxiang (Cangzhou) Petroleum Pipe Co., Ltd.* (軒翔(滄州)石油管有限公司), a sino-foreign equity joint venture company established under the laws of the PRC on 14 November 2018 and an indirect non-wholly owned subsidiary of our Company
"Yanchang Petroleum"	Shaanxi Yanchang Petroleum (Group) Co. Ltd. (陝西延長石油(集團)有限責任公司)
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Public Offer Shares to be deposited directly into CCASS
"6M2018"	six months ended 30 June 2018
"6M2019"	six months ended 30 June 2019
"%"	per cent

Terms marked with "" are English translations of the original names in Chinese of the PRC nationals, entities, enterprises, organisations, institutions, government authorities, departments, facilities, awards, certificates, titles, laws and regulations concerned and are included in this prospectus for identification purpose only. In the event of any inconsistency, the Chinese name(s) shall prevail.*

All times and dates refer to Hong Kong times and dates. Unless otherwise specified, references to years in this prospectus are to calendar years.

This glossary contains explanations of certain terms used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

"API"	the acronym for American Petroleum Institute, which is an independent standard and approval authority in the US that provides quality certification programmes, including the API Monogram Program, with regard to equipment, products and services relating to the oil and natural gas industry
"API Monogram"	API's mark which represents that quality of the products bearing mark has met with the relevant standards as laid down in the corresponding API Monogram Program
"API Monogram Program"	the API Monogram Equipment Licensing Program whereby companies are licensed to feature the API Monogram on their products subject, among others, to meeting certain quality standards as prescribed by API
"casing"	a type of products which are mainly used to reinforce oil wells in the exploration and exploitation of oil and gas, being one of the major products of OCTG
"drill pipe"	a type of heavy seamless tube that rotates the drill bit and circulates drilling fluid, being one of the major products of OCTG. Drill pipes are subjected to high torque by drilling, axial tension by its dead weight, and internal pressure by purging fluid
"EAF"	the acronym for electric arc furnace, which is a furnace that heats charged materials by means of an electric arc
"ERP"	the acronym for enterprise resource planning, being systems that integrate internal and external management information across an entire organisation, embracing finance and accounting, manufacturing, sales and service and customer relationship management, and automate these activities with an integrated software application
"FOB"	the acronym for free on board, which requires the seller to deliver goods on board a vessel designated by the buyer. The seller fulfils its obligations to deliver when the goods have passed over the ship's rail
"average production cost per tonne"	is calculated based on the cost of sales divided by the quantities sold for a product during a financial year/period
"high-end OCTG"	refers to OCTG that possesses higher physical performance

"LIMS"	the acronym for laboratory information management system, being a software-based solution with features that support a modern laboratory's operations. Key features include, but are not limited to, workflow and data tracking support, flexible architecture, and data exchange interfaces, which fully "support its use in regulated environments". It is an enterprise resource planning tool that manages multiple aspects of laboratory informatics
"Made in China 2025"	a strategic plan announced by the PRC government in 2015 that aims at closing the gap with Western hi-tech prowess and lessening the PRC's dependency on imported technology
"MES"	the acronym for manufacturing execution systems, being computerised systems used in manufacturing to track and document the transformation of raw materials to finished goods. MES provides information that helps manufacturing decision makers understand how current conditions on the manufacturing operation can be optimised to improve production output. MES works in real time to enable the control of multiple elements of the production process (e.g. inputs, personnel, machines and support services)
"OCTG"	the acronym for oil country tubular goods, which comprises oil pipes that are widely used in oilfield drilling and completion procedures and the main products of which include casing, tubing and drill pipe. During the Track Record Period, we had only sold casing, which is the major product of OCTG
"oil-gas valent weight"	the index to measure the annual production volume used by PRC's oilfields. It is the sum of crude oil production volume and natural gas production volume (where natural gas production volume is converted into crude oil production volume as measured by energy)
"other oil pipes"	comprises plain-end pipes, line pipes and oil and gas transmission pipelines. During the Track Record Period, the other oil pipes which we had manufactured and sold were mainly plain-end pipes and line pipes
"overall OCTG"	includes OCTG and its semi-finished products, namely plain-end pipes
"PRC Big-3 NOC"	the three largest oil and gas groups with certifications of oilfield exploration and development in the PRC, namely CNPC, Sinopec and CNOOC and their respective affiliates
"standard OCTG"	refers to OCTG that possesses lower physical performance
"TS certification"	a certification granted by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC for the production of special equipment

"tubing"	a type of products which are mainly used to transport oil and gas to the surface in the exploitation and exploitation of oil and gas, being one of the major products of OCTG
"WMS"	the acronym for warehouse management system, which is a software application designed to support and optimise warehouse functionality and distribution centre management

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of Proceeds". These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section "Risk Factors", which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies, plans, objectives and goals;
- the performance of global financial markets, including changes in our ability to access the capital markets and changes in the level of interest rates;
- the business opportunities that we may pursue;
- our dividend policy; and
- the amount and nature of, and potential for, future development of our business.

The words "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future occurrence of such events. Actual outcomes may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our ability to achieve growth of existing businesses and expansion of operations through investments;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC government to management economic growth; and
- the other risk factors discussed in this prospectus as well as other factors beyond our control.

One or more of the above-mentioned risks or uncertainties may materialise.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section "Risk Factors".

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in the Offer Shares. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that almost all of our business is located in the PRC and we are governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. Our business, financial condition and operating results could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. Additional risks and uncertainties that are not presently known to us, or not expressed or implied below, or that we deem to be immaterial, could also have a material adverse effect on our business, financial condition and operating results.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We derive a significant portion of our revenue mainly from the PRC

We derived most of our revenue from the PRC during the Track Record Period. During each of FY2016, FY2017, FY2018 and 6M2019, approximately 89.3%, 96.0%, 91.5% and 92.6% of our total revenue were generated from customers in the PRC. We believe that we are dependent on the general economic conditions in the PRC for our continued growth. Although we have diversified our distribution network to overseas markets, we expect that the PRC market will continue to be our principal market in the near future. The PRC's economy may experience downturn or that its growth may stabilise. Should there be any material adverse change in the political, economic, legal or social conditions in the PRC and we are unable to immediately divert sales to other markets outside the PRC, our revenue, profitability and prospects may be adversely affected.

Changes in government policies in the PRC, fluctuation in market demand for and/or prices of oil may affect the performance of oil and OCTG industries, and the demand for our products may be thereby affected

During the Track Record Period, a substantial part of our revenue is generated from the sale of OCTG mainly to members of one of the PRC Big-3 NOC for use as casing, one of the main products of oil pipes for supporting the wall of oil and gas wells. During each of FY2016, FY2017, FY2018 and 6M2019, approximately 79.5%, 59.1%, 55.2% and 60.7% of our total revenue were generated from sales of OCTG. Demand for our OCTG is dependent on capital expenditures and oil production of oil companies, which in turn is largely dependent on government policies in the PRC, which provide the guidelines of operations and maintain the stable production of the entire oil and gas industry in the PRC. Furthermore, it may be affected by market demand for and/or prices of oil prices. As such, our revenue is sensitive to changes in government policies in the PRC and any changes in government policies of the PRC may cause our customers to reduce or delay their oil exploration and production spending, which may consequently reduce the demand for OCTG. Also, any prolonged decline in market demand and/or prices of oil could affect the performance of the oil industries and indirectly affect the performance of OCTG industries. All of these factors may reduce demand for our OCTG and have an adverse effect on our business, financial condition, and results of operations.

An increase in costs of principal raw materials or our inability to procure production materials at satisfactory prices may adversely affect our profitability

The principal raw material used in our production processes is scrap metal. Direct material costs and purchase costs accounted for approximately 67.0%, 65.7%, 69.1% and 70.4% of our costs of sales for each of FY2016, FY2017, FY2018 and 6M2019, respectively. We source our raw materials in the PRC. The prices of scrap metal may fluctuate due to various factors such as change in government policies, general market conditions and the supply in the market. As prices of the scrap metal are in general determined at the time of placing purchase orders with reference to the market prices, we are subject to risks of price fluctuations in scrap metal. If we are unable to procure scrap metal at satisfactory prices or unable to pass on the increased costs to our customers, our profitability and hence financial performance may be adversely affected. Furthermore, increasing prices of our products may adversely affect the demand from our customers.

The selling price of our products may decrease

The average selling price of each of OCTG, other oil pipes and pipe billets increased from approximately RMB3,581 per tonne, RMB3,304 per tonne and RMB2,665 per tonne, respectively, for FY2016 to approximately RMB5,040 per tonne, RMB4,083 per tonne and RMB3,201 per tonne, respectively, for FY2017, representing an increase by approximately 40.7%, 23.6% and 20.1%, respectively. Our average selling price of each of OCTG, other oil pipes and pipe billets further increased to approximately RMB6,515 per tonne, RMB5,357 per tonne and RMB3,651 per tonne, respectively, for FY2018, representing an increase by approximately 29.3%, 31.2% and 14.1%, respectively. The average selling price of OCTG further increased to approximately RMB6,526 per tonne for 6M2019, representing an increase by approximately 0.2%. While the average selling price of other oil pipes and pipe billets decreased to approximately RMB5,122 per tonne and RMB3,522 per tonne, for 6M2019 as compared with FY2018, representing a decrease by approximately 4.4% and 3.5%, respectively. The increase in our product prices during FY2016, FY2017 and FY2018 was mainly driven by (i) market environment; (ii) the increase in raw material prices; and (iii) the increase in the proportion of sales of high-end OCTG which had a higher average selling price than OCTG with standard specifications. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" and "Financial Information — Description of Certain Key Items of the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Revenue breakdown by product categories" for further details. The price of our products may decrease or may not remain stable in the future. In the event that the selling price of our products declines in the future, our financial performance including our profit margin and profitability may be materially and adversely affected. In addition, any significant decrease in the selling prices of our products could have an adverse impact on our net cash flow generated from operating activities as well as the sufficiency of our working capital.

We experienced net losses in the past and such may expose us to certain liquidity risks and could constrain our operational flexibility as well as materially and adversely affect our ability to expand our business

We have incurred net losses historically and may incur losses in the future as we grow our business. For FY2016, our Group had net losses of approximately RMB53.0 million. The historical losses of our Group were primarily attributable to the relatively less favourable market conditions of the OCTG industry and the integration of production of other oil pipes into our Group and a lot of resources were allocated to such integration which affected the overall performance of our Group. Please refer to the section headed "Financial Information — Review of Historical Operating Results" for further details. Our ability to achieve profitability is affected by various factors, many of which are beyond our control, including developments in the macroeconomic and regulatory environment, changing government policies, changing competitive dynamics, evolving consumers' preference in relation to our products, as well as our ability to respond to these changes in a timely and effective manner. If we are unsuccessful in addressing any of these risks and uncertainties, our business and our ability to achieve profitability may be materially and adversely affected.

Competition in our industry, and failure to compete effectively may adversely affect our business and prospects

We face intense competition in the PRC in which we operate. Please refer to the sections headed "Business – Market and Competition" and "Industry Overview" for details. Our competitors may have longer operating histories, stronger capital resources, better research and development facilities, stronger customer relationships, greater financial, technical, marketing and public relations resources and a broader range of products than we do. Moreover, some of our competitors may also be better positioned to develop better product features and technological innovations and able to better adapt to market trends than we are. Our ability to compete depends on our ability to offer a wide array of high quality conventional or premium products that are suitable for our customers' needs at competitive prices. In addition, our competitiveness depends on our ability to achieve short lead-times and make timely deliveries. Competitive pressure may require us to reduce our prices or increase our costs and may adversely affect our profit margins and results of operations. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market positions.

Our investment in the development of new technologies may not lead to commercial success

We invest resources into R&D of new products or in the improvement of existing products. For each of FY2016, FY2017, FY2018 and 6M2019, our R&D expenditure amounted to approximately RMB14.4 million, RMB18.4 million, RMB23.3 million and RMB12.4 million, respectively. Some of this expenditure cannot translate into products that can feasibly, or cost effectively, be produced on a mass level. Even if products are successfully developed, such products developed may not be commercially accepted. Our R&D efforts may not lead to substantial revenue, if at all. Our financial performance may be adversely affected if the costs we spent in R&D do not bring along proportional financial benefits.

Our production expansion plan may result in over-capacity, significant increase in our cost of sales, depreciation resulting from capital expenditure and may affect our operations, financial conditions and our revenue and profit may not increase proportionally to our increased capacity

We have planned for a series of production capacity increase in our production lines to capitalise on the growing demand for our products through our Phase One Expansion and Phase Two Expansion. Please refer to the section headed "Business — Production — Production expansion plan" for further details of our expansion plan. However, our actual production volume may vary depending on the customer demand for our products which in turn may be affected by market trend, customers' preferences or other factors which are beyond our control. The demand for our products as well as the sales orders to be received and the revenue and profits to be generated may not increase in line with our increase in production capacity and may result in over-capacity.

In addition, we expect to incur increased costs, such as direct labour costs as a result of additional staff of at least approximately RMB39.3 million, RMB45.0 million, RMB48.9 million and RMB44.3 million for each of the four years ending 31 December 2022, respectively, and depreciation costs of at least approximately RMB34.0 million, RMB55.0 million, RMB55.0 million and RMB96.0 million for each of the four years ending 31 December 2022, respectively, as a result of our significant investment in land, buildings, machinery and equipment, in connection with increase in production capacity and production lines. Our production capacity expansion plans may not be successfully implemented without delay. Any failure or delay in implementing any part of these plans may result in a lack of production capacity to support our growth and market expansion, which in turn could materially and adversely affect our business, financial condition and results of operations.

We are subject to risk of inventories obsolescence

As at 31 December 2016, 2017 and 2018 and 30 June 2019, we had inventories of approximately RMB260.0 million, RMB375.0 million, RMB419.7 million and RMB385.1 million, respectively. Furthermore, our inventory provisions during each of FY2016, FY2017, FY2018 and 6M2019 were approximately RMB4.6 million, RMB1.2 million, RMB1.1 million and RMB0.9 million, respectively. Please refer to the section headed "Financial Information — Inventories" for details of our inventories and inventory provisions during the Track Record Period. As our products are made on demand and according to the requirements of our customers, our work-in-progress and finished goods are attributable to designated customers. Therefore, in the event that our customers cancel their orders, we may not be able to reconfigure the work-in-progress or finished goods to suit other customers, leading to the risk of inventories obsolescence and thus adversely affecting our results of operations and financial conditions.

A material disruption to our operations may adversely affect our revenue and profits

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions, preventing us from meeting customer orders, increase our costs of production and consequently adversely affect our revenue and profits. In particular, our operations require complex production facilities and specialised manufacturing equipment. Our production facilities require periodic shutdowns for regular maintenance, repair and mould and tooling changes to accommodate different specifications of OCTG and other oil pipe products as required. Events such as industrial accidents, fires, floods, droughts, natural disasters and other catastrophes, equipment failures or other operational problems that increase our equipment downtimes, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or pipelines may occur in our existing production lines housed in the factory blocks at our principal production base in Cangzhou, Hebei Province, the PRC. If any of such events happen in Cangzhou, Hebei Province, our production may be materially disrupted, which may adversely affect our business and financial performance.

We are vulnerable to the delay or rescheduling of oil and gas exploration and production projects

We derive most of our revenue from sales of OCTG, other oil pipes and pipe billets, which have enjoyed increasing demand in recent years due to the continued development and growth of the PRC exploration and production activities by oil and gas companies, and favorable government energy policies, which in turn have resulted in more oil and gas exploration and production projects. Planned and ongoing oil and gas exploration and production projects can be delayed or rescheduled for a number of reasons including, among other factors, changes in the business strategy of exploration and production operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. Should any of the major projects of our customers to which we plan to supply our products be delayed or rescheduled, our business, financial condition and results of operations could be materially and adversely affected.

Loss of or failure to renew the API Monogram or other certification certifying that our products meet benchmark quality standards could materially and adversely affect our business

As at the Latest Practicable Date, we had obtained qualification certificates from API permitting the use of the API Monogram and the manufacturing and processing of casing, tubing and plain-end pipes in accordance with the industry standard of API Specification 5CT and on the manufacturing and processing of oil line pipes in accordance with the industry standard of API Specification 5L. Certification from API is widely regarded and used by established enterprises in the oil and gas industry as an effective means to assess whether the production or operating standards of manufacturers of oil and gas related products are in compliance with generally accepted industry standards. API licensee will have a full system audit every year and API licenses must be renewed every three years to ensure continued conformance with the applicable program requirements. During the examination process for the application and renewal of such licenses, API will send their certified staff to audit our production and quality management process.

Furthermore, we have been awarded certifications from China Classification Society Certification Company, Hebei Provincial Administration of Quality and Technical Supervision* (河北省技術監督局), State Administration of Work Safety of Hebei Provision* (河北省安全生產監察管理局) and Beijing CNPC Audit Company Limited (北京中油認證有限公司) which certify the satisfaction of the quality standards and requirements for our oil pipe products or our operational management standard.

We may not successfully continue to renew such certifications. In the event that we do not obtain or renew any such certifications, our ability to market our products may be adversely affected, and our sales volume may be reduced. As a result, our business, financial condition and results of operations may be materially and adversely affected.

We have not obtained building ownership certificate for our Cangzhou Offices

As at the Latest Practicable Date, we had not obtained building ownership certificates for our Cangzhou Offices, which comprise four office units and have a total gross floor area of approximately 1,700.0 sq.m.. However, as the property developer has not applied with the government authorities of the PRC for subdivision of the units within the building (including the units in which our Cangzhou Offices are situated), we were unable to obtain building ownership certificates for our Cangzhou Offices. As at the Latest Practicable Date, we understand that the property developer is in discussion with the relevant government authorities of the PRC for the subdivision of the units within the building. Please refer to the section headed "Business — Properties — Lack of building ownership certificates" for further details. As advised by our PRC Legal Advisers, we are entitled to occupy, use, lease or otherwise dispose of our Cangzhou Offices despite of the lack of building ownership certificates. We had not been in breach of any PRC laws and regulations, therefore the relevant government authority in the PRC will not impose any penalties on us or order as to relocate from these office units. However, the relevant government authorities may issue new laws or regulations which may penalise and/or restrict our use of the properties we own which lack building ownership certificates and/or the relevant government authorities or any third party may challenge our use or title of the relevant properties for the lack of building ownership certificates. Any of these may have adverse effect on our business operation at our Cangzhou Offices.

Our borrowing levels, interest payment obligations and net current liabilities could limit the funds available to us for business purposes

During the Track Record Period, we had relied on interest-bearing bank borrowings to fund a substantial portion of our capital requirements, and we may continue to do so in the foreseeable future. Our total interest-bearing bank borrowings amounted to approximately RMB808.8 million, RMB1,106.8 million, RMB1,655.0 million and RMB2,054.0 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. As a result, our debt to equity ratio, which equals to our net debt (total debts being the total interest-bearing bank borrowings and loan from a related party net of cash at bank and on hand) divided by total equity as at the respective year/period end, was approximately 107.4%, 80.4%, 165.7% and 175.3% as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. In addition, as at 31 December 2016 and 2018 and 30 June 2019, we recorded net current liabilities of approximately RMB204.7 million, RMB488.2 million and RMB148.1 million, respectively. Our high level of indebtedness and net current liabilities could materially and adversely affect our liquidity. For instance, it could (i) require us to allocate a significant portion of our cash flow from operations to fund repayments of principal and interest on our interest-bearing bank borrowings and thus, reducing the availability of our cash flow from operations to fund working capital, capital expenditures and other general corporate purposes; (ii) increase our vulnerability to adverse economic or industry conditions; (iii) limit our flexibility in planning for, or reacting to, changes in our business or in the industry in which we operate; (iv) reduce our ability to obtain financing in the future; and (v) increase our exposure to interest rate fluctuations.

Our net current liabilities position exposes us to liquidity risks. Our future liquidity, the payment of trade and bill payables, other payables and accruals and the repayment of our outstanding debt obligations as and when they become due will mainly depend on our ability to maintain adequate cash generated from operating activities and sufficient external financing.

We may not be able to raise necessary funding to finance our current liabilities and other debt obligations and we may continue to have net current liabilities in the future. Our ability to arrange financing and the cost of such financing are dependent on the global and the PRC economic conditions, capital and debt market conditions, lending policies of the PRC government and banks, and other factors. In the event we are unable to obtain adequate financing to meet our working capital requirements, we may be forced to delay, adjust, reduce or abandon our planned strategies. Our business, prospects and financial condition may be materially and adversely affected if our cash flow and capital resources are insufficient to finance our debt obligations.

We are subject to credit risk in respect of our bills receivables

During the Track Record Period, we had discounted certain of the bank acceptance notes we received at banks, and endorsed certain of the bank acceptance notes we received to our suppliers and other creditors for settlement of our trade and other payables on a full recourse basis. Upon the discounting or endorsement, we have derecognised the bills receivables in their entirety. We have exposure in respect of the settlement obligations of the bank acceptance notes under the laws of the PRC should the issuing bank or financial institutions refuse or fail to settle the bills at maturity. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to approximately RMB40.4 million, RMB176.9 million, RMB118.0 million and RMB93.1 million, respectively. The issuing banks of the bank acceptance notes may not continue to settle the bank acceptance notes on time and in full. Any difficulties in collecting a substantial portion of our bills receivables could materially and adversely affect our cash flows and financial position.

We experienced net operating cash outflow for FY2016 and FY2017

We experienced net cash outflow from operating activities of approximately RMB19.2 million and RMB12.6 million for FY2016 and FY2017, respectively. Please refer to the section headed "Financial Information — Liquidity and Capital Resources — Net cash used in/generated from operating activities" in this prospectus for details. Our liquidity and financial conditions may be materially and adversely affected when our future net operating cash flow become negative and we may not have sufficient cash flow from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and may not be able to obtain the financing on terms acceptable to us.

Net operating cash outflow requires us to obtain sufficient financing to meet the financial needs and obligations of our Group. If we are unable to do so, we may be in default of our payment obligations and may not be able to implement our business strategies or expansion as planned. As a result, the business, financial condition and results of operations of our Group will be materially and adversely affected.

We may not be able to sustain our rapid business growth that we have experienced during the Track Record Period

We have been expanding our business rapidly and intend to continue to do so in future. We achieved gross profit margin of approximately 6.2%, 19.4%, 19.1% and 18.5% for each of FY2016, FY2017, FY2018 and 6M2019, respectively. Moreover, our profit/(loss) for the year/period was approximately RMB(53.0) million, RMB232.2 million, RMB301.2 million and RMB117.0 million, respectively, representing net profit margin of approximately nil, 10.2%, 9.7% and 8.1%, respectively. In order to sustain such growth, we would need to implement our business plans effectively, maintain a resilient workforce, manage our costs effectively and exercise adequate control and reporting systems in a timely manner. We may not continue to maintain such rapid business growth in the future and may not be able to maintain or improve the gross profit margin and net profit margin as that in the Track Record Period.

We may fail to renew our certification as approved vendor of one of the PRC Big-3 NOC

We have been recognised as approved vendor of each of the PRC Big-3 NOC. During the Track Record Period, we had mainly sold to one of the PRC Big-3 NOC and our sales to the members of such PRC Big-3 NOC accounted for approximately 70.3%, 55.5%, 52.0% and 62.5% of our revenue for each of FY2016, FY2017, FY2018 and 6M2019, respectively, and our sales of OCTG to these members accounted for approximately 88.3%, 87.6%, 84.2% and 87.1%, respectively, of our total revenue attributable to the sales of OCTG. The renewal of recognition licence is subject to annual performance evaluations conducted by each of the PRC Big-3 NOC. In the event that we are unable to renew our recognition licence with the PRC Big-3 NOC, then our business, financial condition and results of operations may be materially and adversely affected. In addition, potential new customers may require us to first pass a qualification process before we can become a supplier of that customer. We may not be able to pass such qualification process for new products with our existing customers or obtain necessary approvals for our products from any new customers. Even if we can ultimately pass such qualification process we may not be able to obtain such approvals in a timely manner. Furthermore, a number of our major customers perform online annual review on us, during which they review our qualifications based on our previous manufacturing performance. We may not be able to continue to pass such audits without incurrence of material expenses to implement corrective measures, or in a timely manner, or at all. In addition, even if we become an approved supplier of a company, it does not necessarily mean that we will receive purchase orders from that company. If we fail to become an approved supplier of our potential customers, or if we are unable to obtain or maintain such approval in a timely manner or without incurrence of material expenses to implement corrective measures, we may not be able to execute our expansion plans and our business prospects and results of operations may be materially and adversely affected.

We depend on a limited number of customers

Our customers primarily consist of members of one of the PRC Big-3 NOC, steel products, oil pipes and energy equipment manufacturers, OCTG manufacturers, OCTG processing factories and trading companies in the PRC. The aggregate revenue attributable to our five largest customers represented approximately 66.7%, 56.0%, 50.0% and 58.2% of our revenue for each of FY2016, FY2017, FY2018 and 6M2019, respectively. Revenue attributable to our largest customer during the Track Record Period, represented 35.8%, 21.7%, 15.5% and 16.2% of our revenue for the same period respectively. We may not be able to maintain or improve our relationships with these customers, or that we may not be able to continue to supply products to these customers at current levels, or at all. In addition, any decline in our major customers' businesses could lead to a decline in purchase orders from these customers. If any of our key customers were to substantially reduce the size or amount of the orders they place with us or were to terminate their business relationship with us entirely, we may not be able to obtain orders from other customers to replace any such lost sales on comparable terms or at all. If any of these relationships were to be so altered or terminated and we were unable to obtain sufficient replacement orders on comparable terms, our business, results of operations and financial condition would be materially and adversely affected.

We generally do not have long term purchase commitments from our domestic customers

We generally do not have long term purchase commitments from our domestic customers, and generally only enter into sales contracts or sales orders on an order-by-order basis with them. Accordingly, the volume of our domestic customers' purchases and our product mix may vary significantly from period to period, and it is difficult for us to forecast future order quantities. Our domestic customers may not continue to place orders with us in the future at the same level as in the current or prior periods, or at all. Furthermore, the actual volume of our domestic customers' purchases may prove to be inconsistent with our expectations at the time we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We depend on a limited number of suppliers

For each of FY2016, FY2017, FY2018 and 6M2019, purchases from our five largest suppliers, accounted for approximately 78.1%, 63.7%, 40.5% and 65.4%, respectively, of our total purchase costs. For the same periods, purchases from our largest supplier accounted for approximately 36.7%, 28.7%, 9.2% and 21.2% of our total purchase costs, respectively. If any of these suppliers fails to meet our quality standards or our quantity demands, our production, sales volume and results of operations may be adversely affected. If there is any supply shortage, we may not be able to deliver our products in a timely manner to our customers in the required quantities or at commercially acceptable prices, which in turn could result in order cancellations, decreased revenue and loss of market share.

We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities

The United States and other jurisdictions or organisations, including the European Union, the United Nations and Australia, have, through executive order, passing of legislation or other governmental means, implemented measures that impose economic sanctions against such countries or against targeted industry sectors, groups of companies or persons, and/or organisations within such countries.

During the Track Record Period, we delivered certain oil pipe products to the Egypt, Iran, Russia, and Venezuela, which are subject to certain sanctions programs. Iran is subject to comprehensive sanctions programs administered by OFAC. During the Track Record Period, our revenue generated from sales to Egypt, Iran, Russia, and Venezuela amounted to approximately RMB39.9 million, RMB36.4 million, RMB129.9 million and RMB1.3 million, representing approximately 5.3%, 1.6%, 4.2% and 0.1% of our total revenue for each of FY2016, FY2017, FY2018 and 6M2019, respectively. We also intend to continue to deal with the Bank of Kunlun with respect to non-U.S. dollar transactions, an entity listed as a non-SDN on the Part 561 List, with whom we cannot undertake any U.S. dollar transactions. Please refer to the section headed "Business — Business Activities in Countries Subject to International Sanctions" for further details.

Sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. Our business and reputation could be adversely affected if the authorities of United States, the European Union, the United Nations, Australia or any other jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Group.

We have during the Track Record Period engaged in sales and deliveries of oil pipe products to comprehensively sanctioned countries; as a result, we could be subject to liabilities associated with secondary sanctions violations

We have during the Track Record Period engaged in non-U.S. dollar denominated sales and deliveries of oil pipes products to Iran, a comprehensively sanctioned country, which sales and deliveries were Transactions subject to Secondary Sanctions Exposure. As a result, we could be subject to the risk of being exposed to secondary sanctions. In general, secondary sanctions exposure includes the risk of being designated as an SDN, as well as the risk of being subject to other restrictive measures including but not limited to a visa ban, prohibition on importing into the United States, and prohibition on receiving U.S. dollar denominated loans above US$10 million. However, as advised by our International Sanctions Legal Advisers, no VSD process is available for the Transactions subject to Secondary Sanctions Exposure. Our business and reputation could be adversely affected if the authorities of United States were to impose any restrictive measures on us. Please refer to the section headed "Business — Business Activities in Countries Subject to International Sanctions" for further details.

If we are unable to attract and retain members of our senior management team and other skilled personnel, our operations could be disrupted and the growth of our business could be delayed or restricted

Our success depends on the continued service of our key executive officers. We do not carry key person insurance on any of our personnel. We cannot assure you that we will appoint or integrate adequate replacement personnel into our operations in a timely manner, the failure of which may in turn disrupt our operations and the growth of our business.

Our success also depends upon our ability to recruit and retain technical personnel with the ability to develop, manufacture, sell and enhance our products. We have invested resources in training our technical personnel, and we expect to increase our outlays to expand our business. Currently, the demand for skilled workers in the PRC is high, and supply is limited. As a result, there is significant upward pressure on labour wages in the PRC. Significant increases in wages paid by competing employers could result in a reduction of our skilled labour force, and increases in the wage rates that we must pay. If any such events were to occur, our cost structure may increase and our growth potential may be impaired which in turn could have a material adverse effect on our business, financial condition and results of operations.

Domestic and international oil exploration and production activities may affect our business operation and prospects

Demand for our products depends significantly on the number of domestic and, to a lesser extent, worldwide oil wells being drilled, completed and re-worked, as well as the depth and conditions of these wells. The level of such activities in turn depends on the level of capital spending by major oil companies. These expenditures are sensitive to government policies and the industry's view of future economic growth and the resulting impact on demand for oil and oil pipes. If domestic and international demand for oil diminishes, due to factors such as change in government policies and economic downturn of the PRC or globally, it may cause our customers to reduce or delay their oil exploration and production spending, which may consequently reduce the demand for our products, and exert downward pressure on the prices of our products. This could result in a material adverse effect on our financial condition, results of operations and cash flows.

If we fail to develop or adopt new production technologies, our business and prospects may be harmed

The oil industry is competitive and the production technology underlying the industry is rapidly evolving. As customers' needs, related technologies and market trends are subject to change, we cannot assure you that we will be able to correctly predict the trends in a timely manner. If we fail to correctly predict changes in the production technology or develop or adopt competitive technology on a timely basis, whether developed in-house or through licence, we may not be able to respond effectively to competitive industry conditions and changing customer demands. Responding to and adapting to technological developments and changes in the oil industry, and the integration of new technologies or industry standards, may require substantial investment of resources, time and capital. Even if we implement such measures, we may not succeed in adequately responding and adapting to such technological and industry developments. In the event that we are unable to respond successfully to technological and industry developments, our business, results of operations and competitiveness may be materially and adversely affected.

Power shortages or substantial increase in energy costs may adversely affect our operations

Our operations consume substantial amounts of electricity. In the event of power shortages and blackout periods, our production may be disrupted as we do not have backup generators at our production lines. As our production facilities are based in the PRC, our operations may be disrupted if we fail to obtain adequate and stable supply of electricity due to restriction on the use of electricity imposed by the PRC government. During the Track Record Period, we did not experience any material disruption to our production due to power shortages. In addition, we may not be able to pass increased energy costs to our customers due to pressures from competition and customer resistance in the future. In the event that we fail to recover the substantial cost increases of energy, our Group's business, financial condition and results of operations may be adversely affected.

Possible loss of consignment products and insufficient insurance coverage

As at the Latest Practicable Date, we had five subsisting legally binding consignment agreements for the consignment of OCTG. Please refer to the section headed "Business — Customers — Consignment agreements" for details. In the past, there has never been any incident or material loss or damage in respect of the consignment products after the products were passed to the consignees, either during transit or when the goods are in possession of the consignees. However, such incidents may happen in the future. If these incidents happen and the customers are in default to compensate for the relevant loss or damage, our profitability may be adversely affected.

We have not maintained any insurance for our inventory stored in our premises or products in transit or entrusted with the consignees. Any material losses, damage and liabilities that are not covered or adequately covered by our insurance will result in business interruption or damage in our business reputation. In any of these events, our performance could be significantly and adversely affected.

We are required to comply with various environmental, safety and health laws and regulations which are extensive and the compliance of which may be onerous or expensive

As part of our business operation, we are required to comply with various and extensive environmental as well as health and safety laws and regulations promulgated by the PRC in which we operate. If we fail to comply with these laws and regulations, we could be exposed to penalties, fines, suspension or revocation of our licences or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. As these laws and regulations continue to evolve, the PRC government in which we have operations may impose additional or more onerous laws or regulations, compliance with which may cause us to incur significantly increased costs, which we may not be able to pass on to our customers.

Failure to maintain a safety performance standard that is acceptable to our customers could result in the loss of future business

A number of our customers set safety performance standards for their suppliers that are more stringent than the minimum required by applicable laws. A number of our customers require us to maintain safety performance records for our manufacturing facilities and products. Some of our customers have set safety performance criteria that potential suppliers must meet in order to become and remain one of their suppliers. If we fail to meet a customer's safety performance requirements, we may be required to incur additional expenses to implement corrective measures, or even be removed from that customer's supplier list and precluded from providing products or services to that customer.

Our business operations involve risks and occupational hazards

Our business operations involve risks and occupational hazards that are inherent to the industry and which may not be completely eliminated through the implementation of preventive measures. These risks could result in personal injury, damage to or destruction of properties or production facilities, environmental damage, business interruption, legal liability, damage to our business reputation and corporate image, and fatalities. Our business, financial condition and results of operations may be materially and adversely affected if we incur any loss which is not covered by our insurance policies or if the amount of such loss exceeds the aggregate amount of our insurance coverage.

If disruptions in our transportation network occur or our transportation costs substantially increase, we may be unable to deliver our products in a timely manner and our cost of sales could increase

We are highly dependent upon the transportation systems we use to deliver our products, including train, truck and ocean shipping. The transportation network is potentially exposed to disruption from a variety of causes, including labour disputes or port strikes, acts of war or terrorism and natural disasters. If our delivery times increase unexpectedly for these or any other reasons, our ability to deliver products on time could be materially and adversely affected and result in delayed or lost revenue.

We may not maintain sufficient insurance coverage for the risks associated with our business operations

Risks associated with our businesses and operations include but not limited to damage to production facilities, environmental pollution, transportation damages and delays, business interruption due to power shortage, industrial damages, product liabilities, losses of key personnel and risks posed by natural disasters, any or all of which may result in significant losses to us. Currently, we have maintained insurance coverage we consider necessary and sufficient for our operations and customary for the industry in which we operate. Please refer to the section headed "Business — Insurance" for details. Our insurance coverage may not be sufficient to cover any losses to be sustained by us, nor that we can successfully claim our losses under our existing insurance policy on a timely basis or at all. If we incur any loss which is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our financial condition and results of operations could be materially and adversely affected.

We may not be able to effectively manage or obtain adequate financing for our planned expansion

Further expansion of production capacity is a key aspect of our growth strategy. We may not have the necessary management or financial resources to oversee the successful and timely construction of new production facilities. Our expansion plans could also be affected by construction delays, cost overruns, failures or delays in obtaining government approvals of necessary permits and our inability to secure the necessary production equipment. Furthermore, to effectively manage our planned expansion, we must improve our operational and financial systems and procedures and system of internal control. We may not be able to effectively manage our planned expansion or achieve our expansion plans in production capacity at all. If we are unable to do so, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, any of which could materially and adversely affect our business, results of operations and financial condition.

In addition, we expect that over the next several years, a substantial portion of our cash flow will be used to finance the expansion of our production capacities and other aspects of our business. We may need to incur additional financing in order to fund our capital expenditures. We cannot assure you that we will be successful in obtaining such financing at a reasonable cost or at all. Our inability to finance our planned capital expenditures could adversely affect our business, financial condition, results of operations or liquidity position.

We may not be able to implement our future plans successfully

Details of our objective, strategies and future plans are set out under the sections headed "Future Plans and Use of Proceeds" and "Business — Business Strategies". The successful implementation of our business plans depends on a number of factors, such as customers' demands, competitive landscape, and developments in the political, economic or social conditions in the PRC. All of these factors are beyond our control. Our future expansion plans are based on circumstances currently known to our Directors and on certain assumptions. We may not be able to implement our business plans as scheduled nor that any such plans will be as successful as contemplated by us. Any failure or delay in achieving any or all of our business plans may have a material adverse effect on our business, financial condition, results of operations and prospects.

Failure to protect our brand and our intellectual property rights may materially and adversely affect our reputation, competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties

We have gained sound market reputation and market acceptance of our products marked under the brand name "Dalipal". We rely on our brand name and image to attract potential customers. Any negative incident or negative publicity concerning us or our properties may materially and adversely affect our reputation, results of operations, and financial position. Brand value is based largely on customer perceptions with a variety of subject qualities and can be damaged even by isolated business incidents that degrade customer trust. Customer demand for our services and our brand value could diminish significantly if we fail to deliver a consistently positive customer experience or if we are perceived to act in an unethical or socially irresponsible manner.

Our success is in part attributable to the intellectual properties that we have developed or acquired. For details of our intellectual property rights, such as date(s) of registration/application and/or duration of validity of the trademarks and patents, please refer to the section headed "Appendix V— Statutory and General Information — Further Information About the Business of Our Group — 11. Intellectual property rights of our Group". The steps we have taken to protect our brand and intellectual property rights may not be adequate to prevent or deter infringement or other misappropriation of our intellectual property. Any significant infringement of our proprietary technologies and processes could weaken our competitive position and have an adverse effect on our operations. To protect our intellectual property rights, we may have to commence legal proceedings against any misappropriation or infringement. However, we may not prevail in such proceedings. We may be subject to litigation or other proceedings involving the violations of intellectual property rights of third parties. The defense of such litigation or other proceedings can be both costly and time-consuming. An adverse determination in any such litigation or proceedings to which we may become a party could materially and adversely affect our business, financial condition or results of operations.

Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity

We generally do not take out product liability insurance for our products and have not implemented any other protection scheme. If our products do not meet the specifications and requirements agreed with or requested by our customers, or if any of our products are defective, such failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales of these or other products, and we may also be subject to product liability claims and litigation. To this end, we may incur significant legal costs regardless of the outcome of any claim of alleged defect. If we face any product liability claims, our business, financial condition and results of operations may be materially and adversely affected.

An occurrence of a widespread health epidemics and other outbreaks could have a material adverse effect on our results of operations

Our business could be adversely affected by the effects of Severe Acute Respiratory Syndrome (SARS), avian influenza or other epidemic or outbreak on the economic and business climate. Any recurrence of SARS, avian influenza or other adverse public health developments in the PRC or else in the world could have a material adverse effect on our business operations. These could include our ability to travel or ship our products outside of the PRC, as well as temporary closure of our operating facilities. Such closures or travel or shipment restrictions would severely disrupt our business operations and adversely affect our results of operations. Our business operations could be disrupted if one of our employees is suspected of having SARS or avian influenza, since it could require us to quarantine some or all of our employees and/or disinfect our facilities. In addition, our results of operations could be adversely affected to the extent that SARS, avian influenza or other outbreak harms the global economy in general.

Global or regional economic, political, trade or other factors may affect our business

Our business may be substantially affected by the PRC economic and market conditions, and level of regional trade. If the demand for oilfield services and equipment declines due to slowing economic growth, recession, trade restrictions, or other reasons, it will automatically lead to a decline in the demand for our products. Political and trade disputes and trade protectionism may result in imposition of trade barriers or restrictions, sanctions, boycotts or embargoes, new or increased tariffs and other factors such as acts of war, hostilities, epidemics or terrorism, could also adversely affect the regional trade volume and, in turn, could have a material adverse effect on our business, financial condition and results of operations as well as affecting our future expansion strategies. For example, if the recent Sino-U.S. trade war persists and as a result the PRC economic environment deteriorates, the demand for oilfield services and equipment could be affected, which may in turn have an adverse impact on our business, financial condition and results of operations.

We are subject to credit risk in collecting the trade receivable due from our customers

We typically grant our customers a credit period of within 90 days from the date of invoice and they usually make payment to us in RMB and such is typically settled by way of bank transfer. During the Track Record Period, the average trade receivables turnover days of our Group was 48 days, 29 days, 29 days and 44 days respectively, which are mostly within our credit period. As at 31 December 2016, 2017 and 2018 and 30 June 2019, 25.3%, 63.8%, 37.8% and 25.4% of the total trade receivables, respectively, were due from our largest trade debtor, and 79.3%, 94.5%, 79.7% and 75.0% of the trade receivables, respectively, were due from the Group's five largest trade debtors. These related to a number of customers for whom there was no recent history of default. Our Directors consider that a long credit period inevitably increases the potential credit risk of our Group. All such amounts due to our Group may not be settled on time. Accordingly, our Group faces credit risk in collecting the trade receivable due from the customers. Our Group's performance, liquidity and profitability will be adversely affected if significant amounts due to our Group are not settled on time. The bankruptcy or deterioration of the credit condition of any of our major customers could also materially and adversely affect our business.

We cannot guarantee that we will declare or pay dividends

For each of the FY2016, FY2017, FY2018 and 6M2019, we declared dividend of nil, nil, approximately RMB453.0 million and nil. Approximately RMB221.3 million of the dividend declared in FY2018 had been settled during such year. The remaining dividend of approximately RMB231.7 million declared in FY2018 is expected to be paid in full prior to Listing. The payment and the amount of dividends in future, if any, will depend on our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which we may deem relevant at such time. Please refer to the section headed "Financial Information — Dividends and Dividend Policy" for details of our dividend policy. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. The dividend policy of our Company will continue to be reviewed by our Board from time to time and we cannot guarantee that dividends will be paid in any particular amount for any given period.

There are non-compliances of laws and regulations in connection with our operations in the PRC which may lead to enforcement actions being taken against us

During the Track Record Period, there were non-compliances of laws and regulations in connection with our operations in the PRC. These include (i) lack of construction commence permit before the commencement of building construction; and (ii) commencement of use prior to passing the acceptance checks for completed construction project, for certain of our buildings located at our Bohai New District Factory. For details of these non-compliances, their legal ramifications, legal consequences and potential penalty, please refer to the section headed "Business — Non-Compliance". In the event of any enforcement action being taken against us in the future, such action could adversely affect our business operations and financial performance.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

PRC economic, political, social conditions as well as government policies could adversely affect our business, prospects, financial condition and financial results

We conduct our business operations in the PRC which could be influenced by, among others, (i) political structure; (ii) level of the PRC government involvement and control; (iii) growth rate and level of development; (iv) level and control of capital investment and reinvestment; (v) control of foreign exchange; and (vi) allocation of resources.

We cannot predict whether changes in the PRC's economic, political and social conditions and its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. The PRC government has in the past implemented a number of measures intended to curtail certain segments of the economy, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business and financial condition.

Changes in existing laws and regulations or additional or stricter laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditures

Our operations in the PRC are subject to a wide range of PRC environmental laws and regulations, which regulate, among other things, the emission or discharge of pollutants or wastes into the soil, water or atmosphere.

Environmental laws and regulations in the PRC have generally become more stringent in recent years and could become even more stringent in the future. We may in the future be required to obtain further licences before it is permitted to carry out certain activities. Some of these environmental laws and regulations could impose significant costs, expenses, penalties and liabilities on us for violations of existing conditions attached to our licences, whether or not we caused or knew about them. Violations of such laws and regulations may result in civil penalties (such as fines and recovery of costs), remediation expenses, potential injunctions, prohibition orders and criminal penalties. Some environmental statutes impose strict liability, rendering a person liable for environmental damage regardless of negligence or fault. Compliance with, or damages or penalties for violating, current and future environmental laws and regulations could incur significant expenses, which in turn could have a material adverse effect on our business, financial condition and results of operations.

Any tightening of the requirements prescribed by environmental laws and regulations in the PRC, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, and in the event that we are unable to pass on such costs to our customers, we may suffer financial loss. In addition, it may place additional demands on our liquidity and adversely affect our results of operations.

The enforcement of Chinese labour contract law, social insurance law and other labour related regulations may materially affect our business, financial condition and results of operations

Pursuant to Chinese Labour Contract Law, or the Labour Contract law, effective in January 2008 and amended in December 2018, and its implementation rules that became effective in September 2008, employers are subject to strict requirements in terms of signing labour contracts, minimum wages, paying remuneration, overtime working hours limitations, determining the term of employees' probation and unilaterally terminating labour contracts. In the event that we decide to terminate the employment of some of our employees or otherwise change our employment or labour practices, the Labour Contract Law and its implementation rules may limit our ability to effect those changes in a desirable or cost-effective manner, which could adversely affect our business and results of operations.

On 28 October 2010, the Standing Committee of the National People's Congress promulgated Chinese Social Insurance Law which became effective on 1 July 2011 and amended in December 2018. According to the Social Insurance Law, employees must participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance and maternity insurance and the employers must, together with their employees or separately, pay the social insurance premiums for such employees. As the interpretation and implementation of the Labour Contract Law, the Social Insurance Law and other labour related regulations (the "**Labour-related laws and regulations**") are still evolving, we cannot assure that our employment practice do not and will not violate labour-related laws and regulations in the PRC, which may subject us to labour disputes or government investigations. If we are deemed to have violated relevant labour-related laws and regulations, we could be required to provide additional compensation to our employees and our business, financial condition and results of operations could be adversely affected.

Adverse developments in the PRC's economy or an economic slowdown in the PRC may reduce the demand for our products and services and have a material adverse effect on our business, financial condition, results of operations and prospects

We conduct our business and generate majority of our revenues in the PRC. As a result, economic developments in the PRC have a significant effect on our business, financial condition and results of operations, as well as our prospects. In recent years, the PRC has been one of the world's fastest growing economies in terms of GDP growth. However, the global financial crisis that unfolded in 2008 and continued in the past few years has led to a marked slowdown in the economic growth of the PRC. For example, the GDP growth rate of the PRC decreased from 14.2% in 2007 to 7.8% in 2015, and further slowed down to 6.6% in 2018. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC's economy. Any significant slowdown in the PRC's economy could have a material adverse effect on our business and operations. In particular, during a period of economic slowdown, there is a greater likelihood that more of our customers or counterparties could become delinquent in respect of their obligations to us; we may not be able to raise additional capital on favorable terms, or at all; or trade and capital flows may further contract as a result of protectionist measures introduced in certain markets, which could cause a further slowdown in economies and materially and adversely affect our business and prospects.

In addition, factors such as consumer, corporate and government spending, business investment, volatility of the capital markets and inflation all affect the business and economic environment, the growth of the OCTG industry in the PRC and ultimately, the profitability of our business. Our labour and other costs may also increase due to pressure from inflation. Any future calamities, such as natural disasters, outbreak of contagious diseases or social unrest, may cause a decrease in the level of economic activities and adversely affect the economic growth in the PRC, Asia and elsewhere in the world. As such, if the PRC's economy experiences significant adverse developments or a significant downturn, our business, financial condition and results of operations would be materially and adversely affected.

Under the EIT Law, we may not be classified as a "high and new-technology enterprise" of the PRC. Such classification could result in unfavorable tax consequences

Pursuant to the EIT Law, a high and new-technology enterprise may enjoy a preferential enterprise income tax rate of 15%. For each of FY2016, FY2017, FY2018 and 6M2019, the income tax expenses incurred by us amounted to a credit of income tax of approximately RMB10.1 million, income tax expenses of approximately RMB42.1 million, RMB54.1 million and RMB26.8 million, respectively. This represents an effective tax rate of approximately 16.0%, 15.3%, 15.2% and 18.6%, respectively, for the corresponding years/period. Dalipal Pipe is qualified as a high and new technology enterprise during the Track Record Period and was subject to a preferential income tax rate of 15% for FY2016, FY2017, FY2018 and 6M2019. The Group recorded profit before taxation for FY2017, FY2018 and 6M2019, as a result, the Group was entitled to tax savings of approximately RMB27.3 million, RMB35.6 million and RMB15.3 million for each of FY2017, FY2018 and 6M2019, respectively. Dalipal Pipe's qualification was renewed in November 2018 and extended to the year ending 31 December 2020. Accordingly, it is entitled to a preferential income tax rate of 15%.

Despite being eligible for the high and new technology enterprise rate, Dalipal Pipe may not remain qualified as a high and new-technology enterprise so as to enjoy the high and new technology enterprise rate after upon its expiry, in which case Dalipal Pipe will be subject to the normal enterprise income tax rate of 25% as for all PRC enterprises. Moreover, the current policies in the PRC with respect to the current preferential tax treatment that we enjoyed may be abolished or unfavourably amended, or that the approval for such preferential tax treatment will be granted to our subsidiaries in a timely manner, or at all. The effective tax rate will therefore significantly increase and may materially and adversely affect our profitability, which may have a material adverse effect on our business, results of operations and financial condition. Also, the EIT Law, its application or its interpretation may continue to change, in which case the effective income tax rate of Dalipal Pipe may increase significantly.

Fluctuations in the value of the RMB may have a material and adverse impact on your investment

During the Track Record Period, our major operating subsidiary is located in the PRC. During the Track Record Period, some of our overseas transactions, which give rise to cash, receivables and payables, were denominate in currencies other than RMB. Our Group's exposure risk arising from recognised assets and liabilities denominated in a currency other than RMB was RMB18.6 million, RMB11.6 million, RMB34.4 million and RMB20.9 million, respectively, as at 31 December 2016, 2017 and 2018 and 30 June 2019. Dividends, if any, we pay on our Shares will be in Hong Kong dollars. Depreciation in the RMB, on the other hand, would adversely affect the amount of any dividends we pay to our Shareholders, or require us to use more RMB funds to service the same amount of any foreign debt. Fluctuations in RMB exchange rates are affected by, among other things, changes in political and economic conditions and PRC's foreign exchange regime and policy. For FY2016, FY2017, FY2018 and 6M2019, we incurred a net foreign exchange gain of approximately RMB1.3 million, a net foreign exchange loss of approximately RMB0.4 million, approximately RMB1.6 million and RMB0.3 million respectively. There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the RMB and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As at the Latest

Practicable Date, we had not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

The PRC government's control over foreign currency conversion may adversely affect our business and results of operations and our ability to remit dividends

Conversion and remittance of foreign currencies are subject to the PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, we shall have sufficient foreign exchange to meet our foreign exchange needs. Under the PRC current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from the SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licences to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, normally need to be approved by or registered with the SAFE or its local branch unless otherwise permitted by law. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to shareholders or satisfy any other foreign exchange obligation. If we fail to obtain approvals from the SAFE to convert RMB into any foreign exchange for any of the above purposes, our potential offshore capital expenditure plans and even our business may be materially and adversely affected.

Inflation in the PRC could negatively affect our profitability and growth

Economic growth in the PRC has, during certain periods, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the PRC economy, including increasing interest rates and capital reserve thresholds at PRC commercial banks. The effects of the stimulus measures implemented by the Chinese government since the global economic crisis that commenced in 2008 and the continued growth in the overall economy since then have resulted in sustained inflationary pressures. If these inflationary pressures continue and are not mitigated by PRC government measures, our cost of sales will likely increase and our profitability could be materially reduced, as we may not be able to pass any cost increases onto our customers.

Our business may be adversely affected by the introduction of new laws or changes to existing laws by the PRC government and uncertainties regarding interpretation and enforcement of the PRC laws and regulations

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes.

Further, court decisions in the PRC do not have any binding effect on lower courts and it may be difficult to enforce judgments and arbitration awards in the PRC. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court of another jurisdiction.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in the PRC or to enforce against them in the PRC any judgments obtained from non-Chinese courts

Some of our Directors reside within the PRC, and most of our assets and substantially all of the assets of those persons are located within the PRC. It may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against us or them in the PRC any judgments obtained from non-Chinese courts. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts in the United States, the United Kingdom, Japan or most other western countries. However, judgments rendered by Hong Kong courts may be recognised and enforced in the PRC if the requirements set forth by the Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) are met. Therefore, recognition and enforcement in the PRC of judgments of a court in any of these jurisdictions other than Hong Kong in relation to any matter not subject to binding arbitration provisions may be difficult or impossible.

Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under PRC Laws, dividends may be paid only out of distributable profits of our PRC subsidiaries. Distributable profits are our profit for the year as determined under PRC GAAP, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits of our PRC subsidiaries to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been unprofitable. Any distributable profits of our PRC subsidiaries that are not distributed in a given year are retained and available for distribution in subsequent years. Under the current PRC tax laws, regulations and applicable tax treaties, the payment of dividends to a non-PRC resident shareholder is subject to withholding tax of 10% unless that shareholder is incorporated in Hong Kong and meets the relevant requirements where the dividend withholding tax rate is reduced to 5% under the Arrangements between the Mainland China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) dated 21 August 2006.

PRC regulations on loans to and direct investment by offshore holding companies in PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiaries

As an offshore holding company of our PRC subsidiaries, we may make loans to our relevant PRC subsidiaries which are directly invested by offshore subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also determine to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be registered with the Ministry of Commerce of the PRC or its local counterpart. We expect that PRC laws and regulations may continue to limit our use of net proceeds from the Global Offering or from other financing sources. We may not be able to obtain these government registrations on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiaries. If we fail to receive relevant registrations, our ability to use the proceeds of the Global Offering and to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active and/or open trading market for our Shares may not develop as at or after the Listing

Prior to the Global Offering, there has not been a public market for our Shares. While we have applied for listing and dealing in our Shares on the Stock Exchange, an active, open or liquid public market for our Shares may not develop as at or after the Listing or be sustained if developed. Shareholders are reminded that as one of the conditions for the Listing, there must be an open market in the Shares to develop at the time of Listing. The Stock Exchange will not grant the approval for, and the SFC may object to, the listing of the Shares if an open market in the Shares does not exist at the time of Listing. Besides, the SFC may exercise its power of suspension under section 8 of the Securities and Futures (Stock Market Listing) Rules if, at any time after the Listing, it appears to the SFC that there may not have been an open market and that a suspension in the trading of Shares is necessary or expedient in the interest of maintaining an orderly and fair market in the Shares and in the interests of the investing public or for the protection of our investors.

The Offer Price may not be necessarily indicative of the market price of our Shares after the Global Offering is complete. An investor who purchases our Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

Liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders

The price at which our Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;

- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structure such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- general market sentiment regarding the oilfield service and equipment industry;
- changes in applicable laws and regulations in the PRC; and
- political, economic, financial and social developments in the PRC and worldwide.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Termination of the Underwriting Agreements

Prospective investors should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreements by the Underwriters' Representative (for itself and on behalf of the Underwriters) by giving written notice to our Company upon the occurrence of any of the events stated in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Such events include, without limitation, any series of events in the nature of force majeure.

Should the Underwriters' Representative (for itself and on behalf of the Underwriters) exercises its rights and terminate the Underwriting Agreements, the Global Offering will not proceed and will lapse.

Future sales of substantial amounts of the Shares in the public market may adversely affect the prevailing market price of the Shares

Except for our Shares in issue and to be issued under the Global Offering and any shares which may be allotted and issued pursuant to the exercise of options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, our Company has agreed with the Underwriters' Representative (for itself and on behalf of the Underwriters) not to issue any of the Shares or securities convertible into or exchangeable for the Shares during the period up to the date which is six months from the Listing Date, except with the prior written consent of the Underwriters' Representative (for itself and on behalf of the Underwriters). Further, under the Underwriting Agreement, the Shares held by our Controlling Shareholders are subject to certain lock-up undertakings for the period up to 12 months from the Listing Date. Our Company, our Controlling Shareholders and Polaris Swift are also subject to certain restrictions on issuance or (as the case may be) disposal of Shares under the Listing Rules. After these restrictions lapse, the market price of the Shares may decline as a result of sales of substantial amounts of the Shares or other securities relating to the Shares in the public market, the issuance of the new Shares or other securities relating to the Shares, or the perception that such sales or issuances may occur. This may also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

Shareholders' interests may be diluted as a result of additional equity fund-raising

We may need to raise additional funds in the future to finance further expansion of our business. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, their percentage ownership in our Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Exercise of options granted under the Share Option Scheme may result in dilution to the Shareholders

We conditionally adopted the Share Option Scheme on 19 June 2019. As at the Latest Practicable Date, no option had been granted to subscribe for any Shares under the Share Option Scheme. Following the issuance of new Shares upon exercise of any options that may be granted under the Share Option Scheme, there will be an increase in the number of issued Shares. As such, there may be a dilution or reduction of shareholding of existing Shareholders which results in a dilution or reduction of our earnings per Share and net asset value per Share. In addition, the fair value of options to be granted to eligible participants under the Share Option Scheme will be charged to our consolidated statements of profit or loss and other comprehensive income over the vesting periods of the options. Fair value of the options shall be determined on the date of granting of the options. Accordingly, our financial results and profitability may be materially and adversely affected.

Issuances of Shares in relation to the Pre-IPO Share Option Scheme will result in the dilution of the shareholding of existing Shareholders, and the issuance of Shares under the Pre-IPO Share Option Scheme may negatively impact the financial results of our operations on a per-share basis

We have adopted the Pre-IPO Share Option Scheme and have granted options to subscribe for an aggregate of 45,000,000 Shares, and if exercised in full, will represent 3.0% of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, but without taking into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option and any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

Options issued under the Pre-IPO Share Option Scheme are valid for a term of six years from Listing Date, which shall be, subject to the vesting conditions being fully or partly satisfied, vested on the relevant grantees over a term of five years starting from the business day immediately after the first or second anniversary of the Listing Date. Issuance of Shares in relation to the Pre-IPO Share Option Scheme will result in the dilution of the shareholding of existing Shareholders, and the issuances of Shares under the Pre-IPO Share Option Scheme may negatively impact the financial results of our operations on a per-share basis. We estimate that the aggregated share-based compensation expenses will amount to approximately HK$53.9 million and such will be recognised in the seven years ending 31 December 2025. Please refer to the section headed "Appendix V — Statutory and General Information — Other Information — 16. Pre-IPO Share Option Scheme" for further details of the Pre-IPO Share Option Scheme.

The interests of our Controlling Shareholders may not always coincide with our interests and those of our other shareholders

Immediately following completion of the Global Offering and Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued upon the exercise of any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), Mr. Meng, Mr. YX Meng and Rosy Astral will hold directly or indirectly (as applicable) approximately 47.1% of the issued share capital of our Company. Our Controlling Shareholders will be in a position which has significant influence over the operations and business strategy of our Company, and may have the ability to require us to effect corporate actions according to their own desires. If the interests of any of our Controlling Shareholders conflict with our and/or your interests, our Company or those other Shareholders, including you, may be adversely affected as a result.

There may be difficulties in protecting your interests because our Company is incorporated under the Companies Law in the Cayman Islands

Our corporate affairs are governed by, among other things, our Memorandum and Articles of Association and by the Companies Law and common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders may differ in some respects from those established under statutes and judicial precedent in existence in Hong Kong and other jurisdictions. Such differences may mean that our minority shareholders may have different protection than they would have under the laws of Hong Kong and other jurisdiction. Please refer to the section headed "Appendix IV — Summary of the Constitution of Our Company and Cayman Islands Company Law".

Proceeds from the Global Offering may be subject to foreign exchange risk

Our headquarters is in the PRC with our sales and purchases mainly denominated in RMB while the proceeds from the Global Offering will be denominated in HK dollars. RMB has experienced fluctuation against the HK dollars since 2017. As such, we may be exposed to fluctuations in exchange rate and any unfavourable fluctuation against our Group may adversely affect the underlying value of our proceeds from the Global Offering.

RISKS RELATING TO INFORMATION CONTAINED IN THIS PROSPECTUS

Certain facts and statistics in this prospectus relating to our industry may not be reliable

Certain facts and statistics in this prospectus, including industry data and forecasts, have been derived from various official government publications and independent sources which we generally believe to be reliable. However, we cannot guarantee the quality or reliability of such materials. None of us, our Directors, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or our or their respective affiliates or advisers has independently verified, or made any representation as to, the accuracy of such facts, statistics, data and forecasts. Investors should not place undue reliance on such facts, statistics, data and forecasts. Due to possibly flawed or ineffective collection methods or discrepancies between published information, market practice and other problems, the statistics in this prospectus may be inaccurate or may not be comparable to statistics produced for other publications or purposes and you should not place undue reliance on them. Furthermore, they may not be stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such information or statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. We have not authorised the disclosure of any information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it and you should not reply on any such information.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This prospectus contains certain statements that are "forward-looking" and may use forward looking terminology such as "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "potential", "predict", "project", "seek", "should", "will", "would" or similar expressions, or their negatives or other similar expressions. Those statements include, among other things, the discussion of our business strategies and the expectations of our future operations, liquidity and capital resources. Purchases and subscribers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us, our Directors, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or our or their respective affiliates or advisers that our plans and objectives will be achieved. Investors should not place undue reliance on such forward-looking information.

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RELATION TO JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, our company secretary must be an individual who by virtue of his or her academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers the following academic or professional qualifications to be acceptable.

(a) a member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); or

(c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

We have appointed Ms. Wong Gianne as one of our joint company secretaries. Ms. Wong has knowledge about our business operations and corporate culture. However, Ms. Wong does not possess the specified qualifications strictly required by Rule 3.28 of the Listing Rules. As a result, we have appointed Mr. Chow Calvin Cheuk Yin ("**Mr. Chow**"), who meets the requirements under Rule 3.28 of the Listing Rules, to act as the other joint company secretary and to provide assistance to Ms. Wong. Ms. Wong has accumulated approximately one year and three months of relevant experience acting as one of the joint company secretaries of Kidsland International Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 2122), prior to joining our Group. Furthermore, she has over 17 years of experience in corporate finance, financing and investment, obtained a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology in November 2001 and she was admitted as a fellow member of CPA Australia in January 2015. As such, Mr. Chow will provide assistance to Ms. Wong for an initial period of two years from the Listing Date or until Ms. Wong has obtained the academic or professional qualifications acceptable by the Stock Exchange as stipulated by Rule 3.28 of the Listing Rules, whichever is earlier (the "**Engagement Period**"), so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Mr. Chow will work closely with Ms. Wong to jointly discharge the duties and responsibilities of a company secretary and assist Ms. Wong to acquire the relevant experience as required under Rule 3.28 of the Listing Rules. He will also provide adequate training and guidance to Ms. Wong during the Engagement Period. In the event that Mr. Chow resigns or his engagement is terminated earlier than the expiration of the Engagement Period, our Company will employ another qualified candidate as the joint company secretary to replace Mr. Chow and to assist Ms. Wong until the end of the Engagement Period. In addition, Ms. Wong will attend relevant trainings to enhance and improve her knowledge of and familiarity with the Listing Rules and other relevant laws, rules and regulations. Ms. Wong will also be assisted by the compliance adviser and Hong Kong legal advisers of our Company as and when required from time to time, particularly in relation to matters concerning our Company's on-going compliances under the Listing Rules and the applicable laws and regulations of Hong Kong.

We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules, on the condition that Mr. Chow is engaged as a joint company secretary and provides assistance to Ms. Wong during the Engagement Period. If Mr. Chow ceases to render assistance to Ms. Wong during this period and in the absence of another qualified company secretary rendering the same assistance, the waiver will be immediately withdrawn. Upon expiry of the two years period (where applicable), we will conduct a further evaluation of the qualification and experience of Ms. Wong to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied. Our Company and Ms. Wong would then endeavor to demonstrate to the Stock Exchange's satisfaction that Ms. Wong, having had the benefit of Mr. Chow's assistance for two years, together with the prior accumulated experience Ms. Wong has gained when acting as a joint company secretary for another issuer listed on the Stock Exchange, would have acquired the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules and there is no need to further apply for a waiver. Further information on the qualifications and experience of Ms. Wong and Mr. Chow is disclosed in the section headed "Directors and Senior Management".

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have sufficient management presence in Hong Kong, which normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. The core business and operations of our Company are primarily located, managed and conducted in the PRC and substantially all of our Group's assets are based in the PRC. All of our executive Directors are ordinarily based in the PRC and our Group does not and, in the foreseeable future, will not have any management presence in Hong Kong.

In view of that, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the compliance with Rule 8.12 of the Listing Rules.

In order to ensure that regular communication is effectively maintained between the Stock Exchange and our Company, we will put in place the following measures:

(a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our Company's principal channel of communication with the Stock Exchange and ensure that our Company complies with the Listing Rules at all times. The two authorised representatives are Mr. Meng, an executive Director, and Ms. Wong, the joint company secretary of our Company. Mr. Meng holds valid travel documents to visit Hong Kong and Ms. Wong is a holder of Hong Kong permanent identity card and is ordinarily resident in Hong Kong. In addition, Ms. Xu, an executive Director, who also holds valid travel documents to visit Hong Kong, is appointed as the alternate to the two authorised representatives. Each of the authorised representatives will therefore be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, e-mail and facsimile (if applicable). Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(b) each of the authorised representatives has means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. In order to further enhance the communication between the Stock Exchange, our authorised representatives and our Directors, our Company will implement the policies that:

  (i) each Director will provide his/her office phone number, mobile phone number, fax number and e-mail address to the authorised representatives and his/her respective alternate; and

  (ii) in the event that a Director expects to travel and be out of office, he/she will provide the phone number of the place of his/her accommodation to the authorised representatives and his/her respective alternate;

(c) all our Directors have confirmed that they possess valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with the Stock Exchange upon reasonable notice;

(d) we will appoint the Sole Sponsor as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules. The compliance adviser will act as the alternate channel of communication with the Stock Exchange when our authorised representatives are not available. The compliance adviser will have access at all times to the authorised representatives (including the alternate authorised representative), the Directors and senior management of our Company to ensure that it is in a position to provide prompt responses to any queries or request from the Stock Exchange in respect of our Company; and

(e) in addition, all Directors will provide their mobile phone numbers, office numbers, fax numbers and e-mail addresses to the Stock Exchange to ensure that they will be readily contactable when necessary to deal promptly with enquiries from the Stock Exchange.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, any of the Underwriters, any of our or their respective directors, affiliates, advisors, agents or representatives or any person, or party involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering", and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" and in the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, and the International Placing is expected to be fully underwritten by the International Underwriters. The Global Offering is subject to our Company and the Underwriters' Representative (for itself and on behalf of the Underwriters) agreeing on the Offer Price.

The Global Offering is managed by the Underwriters' Representative. If, for any reasons, the Offer Price is not agreed upon among our Company and the Underwriters' Representative (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. Please refer to the section headed "Underwriting" for further details.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The procedures for applying for Hong Kong Public Offer Shares is set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares — 4. Terms and Conditions of an Application".

RESTRICTIONS ON OFFER AND SALE OF SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distributions of this prospectus in any jurisdiction, other than in Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sale of the Offer Shares, in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and Shares to be issued under the Capitalisation Issue and any Shares which may be issued upon exercise of options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme. Save as disclosed in this paragraph, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

The Shares will be traded in board lots of 2,000 Shares. The stock code of the Shares is 1921.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

REGISTERS AND HONG KONG STAMP DUTY

All Offer Shares subscribed for pursuant to applications made in the Hong Kong Public Offering will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands.

Dealings in Offer Shares registered in the branch register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in the Offer Shares. None of our Company, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of Offer Shares.

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, certain amounts denominated in Hong Kong dollars have been translated into Renminbi at an exchange rate of HK$1.00 = RMB0.9 for illustration purpose only. Such conversions shall not be construed as representations that amounts in Hong Kong dollars were or could have been or could be converted into Renminbi at such rates or any other exchange rates on such date or any other date.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus shall prevail unless otherwise stated. However, if there is any inconsistency between the names of any of the entities mentioned in this English prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

Certain monetary amounts included in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Meng Fanyong (孟凡勇)	Block A, Wantai Haojing Yuhe Road, Yunhe District Cangzhou City Hebei Province PRC	Chinese
Ms. Xu Wenhong (徐文紅)	59–1–101, Wantai Haojing Yuhe Road, Yunhe District Cangzhou City Hebei Province PRC	Chinese
Mr. Meng Yuxiang (孟宇翔)	Block A, Wantai Haojing Yuhe Road, Yunhe District Cangzhou City Hebei Province PRC	Chinese
Ms. Gan Shuya (干述亞)	Room 901, Unit 2 District A, 2 Huangjia Yili Yunhe District Cangzhou City Hebei Province PRC	Chinese
Mr. Yin Zhixiang (殷志祥)	Room 1601, Unit 2 9 Yujing Guoji Yunhe District Cangzhou City Hebei Province PRC	Chinese
Non-executive Director		
Mr. Zhang Hongyao (張紅耀)	FH45, Room 702 No. 18, Lane 199, Biyun Road Pudong New Area Shanghai PRC	Chinese

Name	Address	Nationality
Independent non-executive Directors		
Guo Kaiqi (郭開旗)	4-2-1001, Shiyou Dayuan No.20, Xueyuan Road Haidian District Beijing PRC	Chinese
Wong Jovi Chi Wing (王志榮)	Flat D, 13/F Block 1, University Heights No. 23 Pokfield Road Kennedy Town Hong Kong	New Zealander
Cheng Haitao (成海濤)	2-42, Block 1, Aijia Liyuan Yiduan, Jinhua Road Jinjiang District Chengdu Sichuan Province PRC	Chinese

For further information regarding our Directors, please refer to the section headed "Directors and Senior Management".

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**CMBC International Capital Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Underwriters' Representative	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Joint Global Coordinators	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong **Guotai Junan Securities (Hong Kong) Limited** 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	**CMBC Securities Company Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong **Guotai Junan Securities (Hong Kong) Limited** 27/F, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong **Essence International Securities (Hong Kong) Limited** 39/F, One Exchange Square Central Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Shanxi Securities International Limited
Unit A 29/F Admiralty Center Tower 1
18 Harcourt Road
Admiralty
Hong Kong

Legal advisors to our Company

As to Hong Kong law:
Chiu & Partners
40th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Beijing 100025
PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to International Sanctions laws:
Hogan Lovells
11th Floor, One Pacific Place
88 Queensway
Hong Kong

Legal advisors to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* **Howse Williams** 27/F Alexandra House 18 Chater Road, Central Hong Kong *As to PRC law:* **Commerce & Finance Law Offices** 6F NCI Tower A12 Jianguomenwai Avenue Beijing PRC
Auditors and reporting accountants	**KPMG** *Certified Public Accountants* 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Property valuer	**APAC Asset Valuation and Consulting Limited** 5/F, Blissful Building 243–247 Des Voeux Road Central Hong Kong
Industry consultant	**China Insights Consultancy** 10F, Tomorrow Square 399 West Nanjing Road Huangpu District Shanghai PRC
Compliance adviser	**CMBC International Capital Limited** 45/F, One Exchange Square 8 Connaught Place Central Hong Kong
Receiving banker	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and place of business in the PRC	No.1 Zhuangbei District Nanshugang Road Bohai New District Cangzhou City Hebei Province PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 02, 10th Floor Beautiful Group Tower 77 Connaught Road Central Hong Kong
Company website	www.dalipal.com *(information on the website does not form part of this prospectus)*
Joint Company secretaries	Ms. Wong Gianne *FCPA (Australia), CB* 59A Star Tower The Arch 1 Austin Road Kowloon Hong Kong
	Mr. Chow Calvin Cheuk Yin *Solicitor of HKSAR* Flat G, 28/F, Block 10 Nan Fung Sun Chuen 19 Greig Crescent Quarry Bay Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Meng Fanyong Block A, Wantai Haojing Yuhe Road, Yunhe District Cangzhou City Hebei Province PRC

Ms. Wong Gianne
FCPA (Australia), CB
59A Star Tower
The Arch
1 Austin Road
Kowloon
Hong Kong

Alternate to the authorised representatives
Ms. Xu Wenhong
59–1–101, Wantai Haojing
Yuhe Road, Yunhe District
Cangzhou City
Hebei Province
PRC

Authorised representatives (for the purpose of the Companies Ordinance)

Ms. Wong Gianne
FCPA (Australia), CB
59A Star Tower
The Arch
1 Austin Road
Kowloon
Hong Kong

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

Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 54 Hopewell Centre 183 Queen's Road East Hong Kong
Principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal bankers	**Bank of China (Hong Kong) Limited, Hong Kong** Bank of China Tower 1 Garden Road Central Hong Kong
	China Construction Bank Corporation **Cangxian Branch** Intersection of Qiantong Avenue and Baichuan Road Xinhua District Cangzhou City Hebei Province PRC
	Bank of China Limited **Cangzhou City Dongfeng Road Branch** 24 Jiefang East Road Cangzhou City Hebei Province PRC

The information set forth in this section is derived from the CIC Report, which is based on information obtained from CIC's database, publicly available sources, industry reports, as well as data obtained from interviews and other sources. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsors, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except CIC) involved in the Global Offering, and no representation is given as to the completeness, accuracy or fairness of such information. Accordingly, the information as presented herein should not be unduly relied upon.

INTRODUCTION

We commissioned CIC, an independent market research and consulting company, to conduct research and analysis on the PRC oilfield services and equipment industry, and to produce the CIC Report on the OCTG market in PRC at a fee of RMB570,000, which we believe reflects market rates for reports of this type. The CIC Report commissioned has been prepared by CIC independent of our influence and other interested parties. CIC's services include, among others, industry consulting, commercial due diligence, and strategic consulting. Its consulting team has been tracking the latest market trends in industrial, energy, chemical, healthcare, consumer goods, transportation, agriculture, Internet, and finance, and has the most relevant and insightful market intelligence in the above industries.

SOURCE OF INFORMATION

CIC conducted both primary and secondary research through various resources. Primary research involved interviewing key industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, such as the International Monetary Fund, National Bureau of Statistics of the PRC.

The market projections in the CIC Report are based on the following key assumptions: (i) economy and industry development in the PRC is likely to maintain a steady growth in the next decade; (ii) related industry key drivers are likely to drive the growth of the OCTG market in the PRC, such as the increase of consumption demand for oil and gas, the rapid increase of natural gas production in the PRC, and the increase of drilling footage of oil and gas fields with the year-by-year increase of oil and gas exploitation; and (iii) there is no any extreme unforeseen circumstance or industry regulation in which the market may be affected dramatically or fundamentally. Other sources of information, including government, industry associations or market participants, have provided some of the information on which the analysis or data is based. Projected data was obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading. The following parameters are considered in the market sizing and forecast model in the CIC Report: (i) GDP value and GDP growth rate from 2014 to 2023; (ii) the total of exploration and development capital expenditures of CNPC, Sinopec and CNOOC; (iii) the total drilling footage of PRC's oil and gas well and the average usage of OCTG per meter. All the information about our Company is obtained from the Company's management interview. Information of our Company has not been independently verified by CIC.

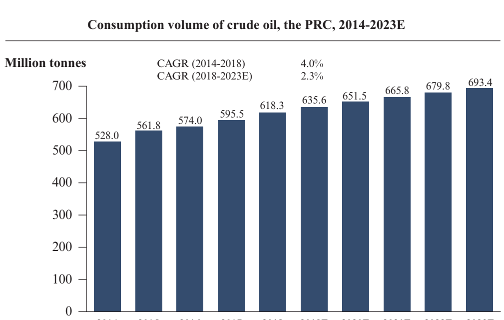
Historical market information contained in this section covers the five years ended 31 December 2018 as such information for the period thereafter was not available as at the Latest Practicable Date. Our Directors confirm that, to the best of their knowledge, after making reasonable investigation, there has been no material adverse change in the market information since 31 December 2018 and up to the Latest Practicable Date, which may qualify, contradict or have an impact in any material respect on the information in this section.

OVERVIEW OF THE OIL AND GAS INDUSTRY IN THE PRC

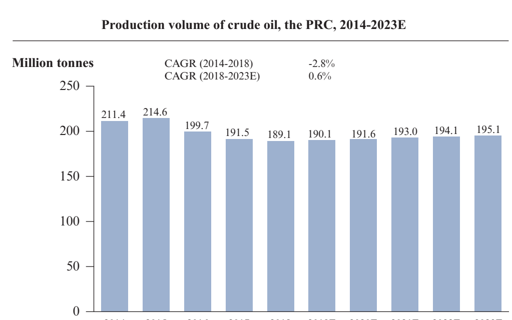
The initiative to ensure oil exploration is crucial in shaping PRC's energy development strategy

According to the CIC Report, the growth of consumption volume of crude oil in the PRC was the largest in the world from 2000 to 2018. PRC as the world's second-largest consumer of crude oil, increased its consumption volume from 528.0 million tonnes in 2014 to 618.3 million tonnes in 2018, representing a CAGR of 4.0%. Crude oil consumption volume in the PRC is expected to increase to 693.4 million tonnes in 2023, at a CAGR of 2.3%. Such increasing oil consumption has to be met by self-production and imports. PRC's total crude oil production volume, which is the seventh largest in the world, mostly serves its domestic market. From 2014 to 2018, the production of crude oil in the PRC did not keep pace with the demand growth. Mainly due to the increasing complexity in oilfield exploitation, the oil production volume experienced a slight drop from 211.4 million tonnes in 2014 to 189.1 million tonnes in 2018.

However, the National Development and Reform Commission of the PRC emphasised the strategic significance of strengthening the crude oil exploration and development to guarantee domestic energy supply. The government released a series of policies in the "13th Five-Year Plan for oil industry" by the end of 2016 to improve the security of national energy, specific guidelines such as (i) the newly explored crude oil reserves is targeted to reach 1.0 billion tonnes per year during the "13th Five-Year Plan period" (from 2016 to 2020); (ii) the production volume of crude oil is targeted to reach 200.0 million tonnes in 2020; and (iii) the crude oil strategic reserve is targeted to reach about 85.0 million tonnes by 2020. Thus the oil production volume is projected to increase to approximately 195.1 million tonnes in 2023. The chart below presents the growth of consumption volume and production volume of crude oil in the PRC for the periods presented:



Source: CIC Report



Source: CIC Report

Definition of the Oilfield Services and Equipment Industry

The oilfield services and equipment industry comprises of companies which support the oil and gas industry through technology and testing services as well as providing equipment used in oil and gas exploitation and production. Companies in this industry are required to evaluate, construct, and maintain oil and gas wells. The leading service and equipment providers offer the broadest array of capabilities, smaller players usually focus on a market niche. PRC's oilfield services and equipment industry can be divided into five types according to the stage of oilfield development: geophysical prospecting, drilling, well completion, production and oilfield engineering construction.

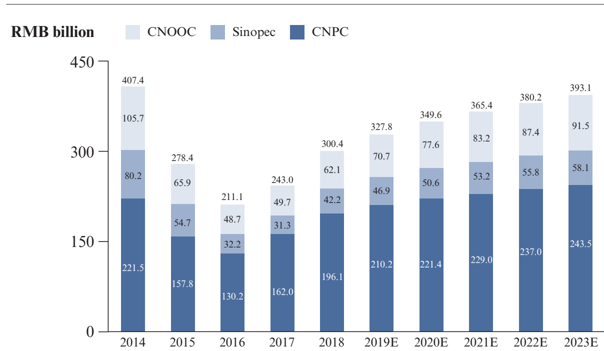
PRC's oilfield services and equipment industry can also be divided into oilfield service providers and oilfield equipment providers depending on the type of services provided. Casing and other oil pipes (mainly plain-end pipes), our major products, are important oilfield equipments widely used in the well completion process.

Market size of the Oilfield Services and Equipment Industry in the PRC and related drivers

According to the CIC report, the estimated market size of PRC's oilfield services and equipment industry in terms of the total revenue is the total of exploration and development capital expenditures of CNPC, Sinopec and CNOOC, as they are the PRC Big-3 NOC which dominate the PRC oil and gas industry in the PRC. The total production volume of Big-3 NOC took up about 93.8% of the total oil production volume in the PRC in 2018, meanwhile the largest market player accounted for over 50% of the market.

Before 2016, without clear support from government, the total market size of PRC's oilfield services and equipment market have decreased from RMB407.4 billion in 2014 to RMB211.1 billion in 2016 due to the sharp decrease in global oil price. However, at the end of 2016, the PRC government has initiated a series of policies in "13th Five-Year Plan for oil industry" to improve the security of national energy and provided specific guidelines to drive domestic oil production volume. With the strong policy support, PRC's oilfield services and equipment industry has showed clear signs of recovery in 2017 and strong rebound in 2018. Ever since then, the market size of oilfield services and equipment has witnessed a steady growth and is expected to increase from RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, representing a CAGR of 5.5%. The following chart presents the growth of oilfield services and equipment industry in the PRC for the periods presented:

Market size of the oilfield services and equipment industry, as measured by the "PRC Big-3 NOC" exploration and development capital expenditures, the PRC, 2014-2023E



	CAGR (2014–2018)	CAGR (2018–2023E)
Total	-7.3%	5.5%
CNOOC	-12.5%	8.1%
Sinopec	-14.8%	6.6%
CNPC	-3.0%	4.4%

Source: CIC Report

This steady growth was driven primarily by the following key drivers: (i) with high level guidance from the PRC government, oil companies in the PRC will take measures and actions to enhance the oil and gas exploration and production according to predefined strategies and use appropriate mechanisms to achieve the goals set; (ii) oil companies in the PRC increase their exploration and development expenditure: CNPC's exploration and development capital expenditure plan for 2019 increased significantly. Sinopec and CNOOC also announced an increase to their exploration and development capital expenditures for 2019, and this investment is expected to keep growing considering the difficulty of oil exploitation is getting higher; (iii) with the advancement of oil and gas reform, more private-owned oilfield services and equipment companies in the PRC will enter the list of suppliers to CNPC, Sinopec and CNOOC, which will promote the technological progress of the entire industry and drive the rapid development of PRC's oilfield services and equipment industry.

OVERVIEW OF THE OCTG MARKET IN THE PRC

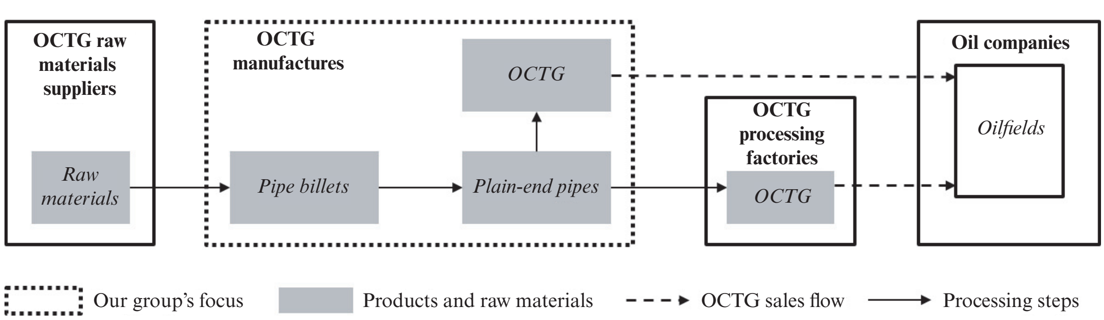
Definition of the OCTG market

OCTG comprises oil-pipes that widely used in oilfield drilling and well completion procedures, including casing, tubing and drill pipes, casing and tubing are major oilfield equipment used in well completion process while drill pipes are equipment used in drilling process. Unlike tubing and drill pipes that can be reused in different oil wells, casing is consumable, non-reusable and will remain as wellbore to become a part of the oil well after drilling and well completion process. Therefore, each well needs at least a complete set of casing which result in much higher consumption volume of casing than that of tubing and drill pipes. In terms of overall consumption volume, casing, tubing and drill pipes accounted for over 75%, over 15% and less than 10%, respectively. Please refer to the section headed "Business — Our Products" for a illustration of the component of OCTG.

Value chain of the OCTG industry in the PRC

The value chain of the OCTG industry begins with the OCTG raw material suppliers, OCTG manufacturers, and ends with oil companies. The following chart presents the value chain of OCTG market in the PRC.

Value chain analysis of the OCTG market, the PRC, 2018



Source: CIC Report

The OCTG production process generally consists of three steps, namely, the production of pipe billets from raw materials, the processing into plain-end pipes and further processing into OCTG.

For raw materials, the majority of OCTG manufacturers purchase scrap metals or iron ore with coke as raw materials to produce pipe billets by itself, and other manufacturers choose to purchase pipe billets directly.

OCTG and plain-end pipes are the two main products of OCTG manufacturers, they are generally named "overall OCTG products". It's an industry norm that a part of OCTG manufacturers with sufficient production capacity of pipe billets sell the pipe billets to varied types of seamless steel pipes manufacturers both within and outside of the oil and gas industry. The plain-end pipe, an important type of other oil pipes, is a semi-finished product of OCTG, mainly refers to the unthreaded casing and tubing, except for being processed into OCTG by OCTG manufacturer itself, about 31% of the OCTG market is contributed by plain-end pipes that would be sold by the OCTG manufacturers to the OCTG processing factories and being processed into OCTG and then sold to the oil companies in 2018. According to the CIC report, the processing of the plain-end pipes is low-tech and of low commercial value, thus only the enterprises that have the capability to produce plain-end pipes and OCTG independently can be classified as "OCTG manufacturers".

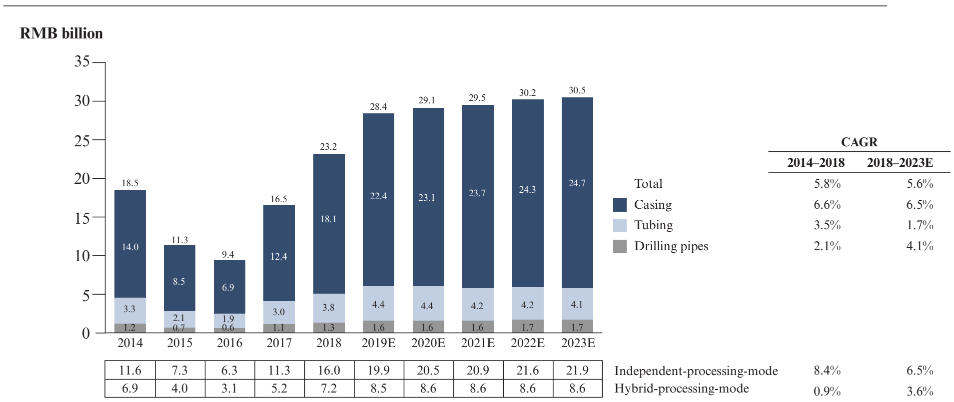
Market size of the OCTG industry in the PRC

The market size of OCTG industry as measured by the sales value in the PRC increased from RMB18.5 billion in 2014 to RMB23.2 billion in 2018, representing a CAGR of 5.8%. Driven by the strong demand from oilfields, the total sales value is expected to reach RMB30.5 billion in 2023, representing a CAGR of 5.6%, mainly benefit from the fact that (i) government's policies to emphasise on crude oil exploitation securities; (ii) the increasing demand from natural gas exploration and production; and (iii) the increasing drilling footage in oil and gas fields.

Casing is the main type of the OCTG, the sales value of casing, as a percentage of the total sales value, increased from 75.6% in 2014 to 78.0% in 2018, and such percentage is estimated to reach 81.0% in 2023.

The following chart presents the growth of OCTG market in the PRC for the periods presented:

Market size of the OCTG industry by products and processing modes, as measured by the sales value, the PRC, 2014-2023E



Source: CIC Report

According to the CIC report, OCTG in the PRC generally comes from two different processing modes, namely, independent-processing-mode and hybrid-processing-mode. Independent-processing-mode refers to OCTG manufacturers perform all production steps and directly sell finished OCTG, while hybrid-processing-mode is followed by OCTG manufacturers responsible for plain-end pipes production while the subsequent processing steps completed by OCTG processing factories. We adopted both independent-processing-mode and hybrid-processing-mode since we produce and sell the OCTG directly in independent-processing mode as well as produce and sell the plain-end pipes in hybrid-processing mode.

OCTG manufacturers provide "overall OCTG products" (including OCTG and plain-end pipes) to the market. According to the CIC report, the sales value of plain-end pipes in the PRC, which will be processed into OCTG by hybrid-processing-mode increased from RMB6.9 billion in 2014 to RMB7.2 billion in 2018, and is expected to reach RMB8.6 billion in 2023.

Market drivers of OCTG industry in PRC

Government's policies to emphasise on crude oil exploitation securities

PRC's upstream oil & gas exploration and development is dominated by CNPC, Sinopec and CNOOC, their operation methods are more likely to be affected by government policies, which provide the guidelines of operations and maintains the stable production of the entire oil and gas industry in the PRC. Thus the production volume of domestic oil companies are mostly framed by the PRC government.

The global oil market are greatly affected by geopolitical risks such as sanctions or trade disputes, and shifting of national energy strategies. Under the current situation, the PRC government understood that relying on international crude oil imports will be susceptible to the fluctuations in international oil prices. The PRC is expected to explore more on its domestic oil supply capacity through its well-established and strictly-planned domestic oil production strategy. The PRC's OCTG market is optimistic as Chinese oil companies are projected to meet the increasing domestic oil consumption. Thus the sales volume of OCTG will increase accordingly.

The increasing demand from natural gas exploration and production

OCTG plays the same role in natural gas field exploitation as in oilfield exploration, and the amount used is also similar. PRC's proven natural gas reserves are among the best in the world, and natural gas will be the future growth driver of fossil energy in the PRC. The national "13th Five-Year Plan" also has a clear and positive plan for natural gas production in 2020.

The production volume of natural gas increased from 131.2 billion cubic meters in 2014 to 161.5 billion cubic meters in 2018, representing a CAGR of 5.3%. Considering the government plans and increasing demand, the production of natural gas is expected to grow to 250.4 billion cubic meters in 2023, representing a CAGR of 9.2%. The share of shale gas in natural gas production volume increased from 1.0% in 2014 to 6.4% in 2018, considering PRC shale gas reserves are the highest in the world and the difficulty of shale gas exploitation is higher than that of the crude oil or other types of natural gas, whose exploitation and exploration require larger expenditures on oilfield services thus bringing huge opportunities for the OCTG market.

The increasing drilling footage in oil and gas fields

Oil companies were encouraged to increase their exploration and development capital expenditure for more new oil wells to better fulfill the emerging demand. The number of boreholes in PRC's domestic oilfields increased from 18,083 in 2016 to 27,604 in 2018, at a CAGR of 5.8%. Data from the last two years has shown the increasing exploration of domestic oilfields, which will significantly drive the future growth of the OCTG market.

Most of the PRC's oilfields are viscous oilfields, so the exploitation is highly difficult and the drilling footage needs to be deeper than in other countries. The average drilling footage of oil wells increased from about 2,150.0 meters in 2014 to about 2,500.0 meters in 2018, and is expected to be higher in the future. Therefore, more OCTG products will be used in each oil and gas well accordingly. With the deepening of the mining level, the primary method of oil recovery[1] struggles to reach the production demand, so the secondary oil recovery method[2], which requires using re-injection mining technology and more OCTG products will be widely used in the oil and gas exploitation. Thus, the demand for OCTG products per oil and gas wells will increase accordingly.

Price of the OCTG products and plain-end pipes in the PRC

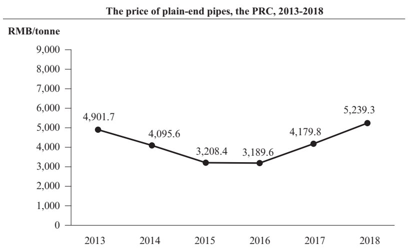
The OCTG products can be divided into API products and non-API products. API products are those that met with the relevant standards as laid down in the corresponding API Monogram Program. Non-API products are generally customised products with higher prices. API products and non-API products account for about 80% and 20% of sales volume in the OCTG market respectively.

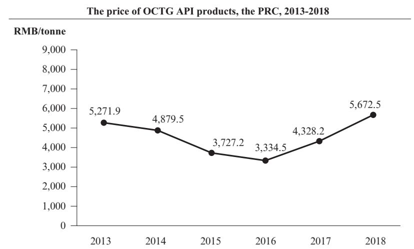
According to the CIC Report, due to the price fluctuations of raw materials, the average prices of API products decreased from RMB5,271.9 per tonne in 2013 to RMB3,334.5 per tonne in 2016. Then, it increased to RMB5,672.5 per tonne in 2018, representing a CAGR of 1.5% from 2013 to 2018. Meanwhile the average prices of non-API products decreased from RMB8,471.4 per tonne in 2013 to RMB6,309.3 per tonne in 2016. Then, it increased to RMB8,581.0 per tonne in 2018, representing a CAGR of 0.3% from 2013 to 2018. Additionally, the price of plain-end pipes show the similar price fluctuations as OCTG, the average prices of plain-end pipes decreased from RMB4,901.7 per tonne in 2013 to RMB3,189.6 per tonne in 2016. Then, it increased to RMB5,239.3 per tonne in 2018, representing a CAGR of 1.3% from 2013 to 2018.

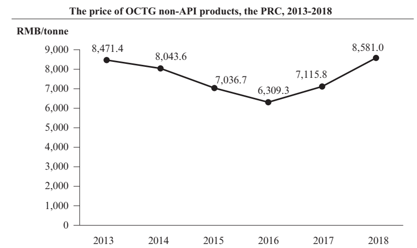
[1]: *Produce the crude oil by using the reservoir energy of the oilfield itself*

[2]: *Produce the crude oil by injecting water or gas into the reservoir to replenish the energy of the oilfield*

The following charts present the prices change of OCTG API, non-API products and plain-end pipes in PRC for the periods presented:







Source: CIC Report

PRC Big-3 NOC are the dominant price-setters in the OCTG market, and the mechanism for setting the OCTG guidance price is mainly related to two indicators, namely OCTG raw material price and general steel price. The raw material price is used as the primary indicator to determine the reasonable pricing range of OCTG to ensure that suppliers are profitable and thus guarantee relatively stable supply in market. Meanwhile, the general steel price is used as a secondary indicator to determine the specific price within the range. Due to the continuous implementation of Supply-side reform (供給側改革), the overall price of PRC's steel market has experienced a steady growth since 2016 and it is expected to continue expand steadily.

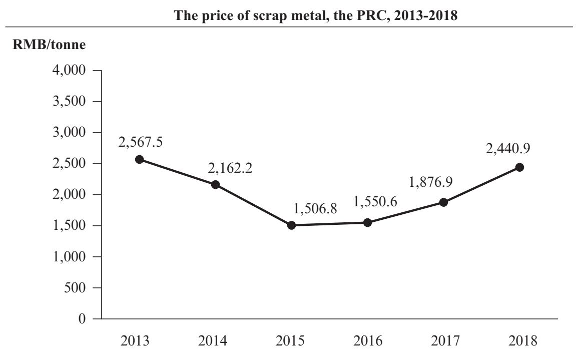
Meanwhile, considering from the demand side, as the government has clear and strict requirements for domestic oil production, oil companies' exploration and development capital expenditure will sustain the growth in the future, thus the price of OCTG products, semi-finished products and OCTG raw materials will be along for the ride and maintain a moderate growth with short-term fluctuations in the next five years.

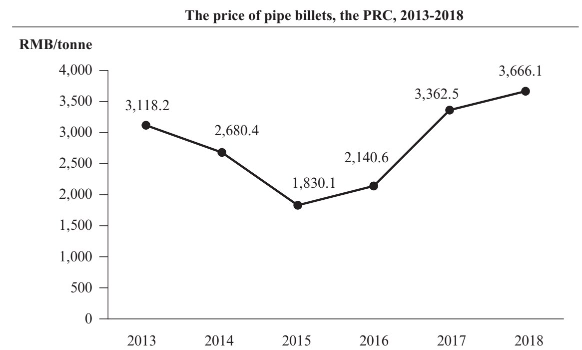
Raw material analysis of the OCTG industry in the PRC

Since the Supply-side reform in 2015, with the readjusting industrial structure in steel making industry, reducing use of outdated capacity and improving industry profits, the size of pipe billets market in the PRC in terms of sales value, has increased from RMB28.6 billion in 2014 to RMB43.1 billion in 2018, representing a CAGR of 10.8%. The pipe billets market in the PRC is fragmented with hundreds of pipe billets manufacturers and lack of market leaders. As the raw material of plain-end pipes and other seamless steel pipes, the sales value of pipe billets in PRC is projected to maintain increasing by 2023 due to increasing demand from downstream.

The price of pipe billets, one of the major raw materials used in the manufacturing of OCTG, influences the price of the OCTG finished product to a great degree. Before the Supply-side reform, PRC's steel market supply far exceeded demand, resulted in the price of pipe billets to fell substantially from approximately RMB3,118.2 per tonne in 2013 to approximately RMB1,830.1 per tonne in 2015. After the Supply-side reform, a large number of non-compliant steel companies were shut down, market supply decreased, and steel prices increased. Thus the price of pipe billets increased to RMB3,666.1 per tonne in 2018.

The prices of scrap metal, the principal raw materials used in the manufacturing of pipe billets, showed similar trends between 2013 and 2015. Due to the similar reason of the price fluctuations of pipe billets, the price of scrap metal also started to increase from 2015 to 2018. The following charts present the changes in prices of pipe billets and scrap metal in the PRC for the periods presented:





Source: CIC Report

Market size of energy equipment industry in the PRC

Energy equipment market mainly includes equipments used in oil and gas industry, thermal, wind and hydroelectronic generation industry, etc. It was benefited from the National Energy Development Strategies (國家能源發展戰略) released in 2014 to secure the supply of energy in PRC, thus the market size as measured by the total revenues of PRC's energy equipment market increased from RMB111.4 billion in 2014 to RMB121.8 billion in 2018, representing a CAGR of 2.3%. Benefited from the PRC government's emphasis on the energy industry and the increasing investment in energy exploitation and transportation, it is expected that the market size of PRC's energy equipment market will be steadily growing at a CAGR of 3.2% in the next five years, reaching to RMB142.1 billion in 2023.

Pipe billets can be produced into various bearings, flanges and other energy pipes or components used in the other energy equipment industry. Therefore, pipe billets manufacturers with customer resources in the other energy equipment industry will benefit from the steady growth of the energy equipment industry.

COMPETITIVE ANALYSIS OF OCTG MARKET IN THE PRC

According to CIC report and based on industry consensus, since OCTG processing factories do not master the core technology of OCTG production and the value-added of the processing step is relatively low, the production of OCTG processed in hybrid-processing-mode should be attributed to the OCTG manufacturers. Therefore, OCTG manufacturers generally provide two main products to the market, which is defined as "overall OCTG products", including OCTG and plain-end pipes.

Compared with selling plain-end pipes, the semi-finished product of OCTG, selling OCTG directly will bring higher added value, closer customer relationships and more potential opportunities to the OCTG manufacturers. Thus, the direct sales value of OCTG is the most important indicator to measure the competitiveness of OCTG manufacturers. In terms of the sales value of independent-processing-mode manufactured OCTG in 2018, we ranked first among all of the private-owned OCTG manufactures and third among all of the OCTG manufactures (including the state-owned and private-owned) in the PRC, with the sales value of OCTG of RMB1,546.9 million and a market share of approximately 9.6%.

Ranking of OCTG manufacturers in terms of sales value of OCTG, the PRC, 2018

Overall ranking	Private-owned manufacturers ranking	Company	Background	Company description	Sales value (RMB million)	Market share
1	—	Company A	State-owned	A leading manufacturer and distributor of seamless steel pipes and OCTG products in the PRC.	3,672.4	22.9%
2	—	Company B	State-owned	A leading listed steel manufacturing and processing company, its products cover automotive, energy, construction, manufacturing and other industries.	3,505.8	21.8%
3	1	Our company	Private-owned	A leading oilfield equipment enterprise that specialises in manufacturing and selling OCTG.	1,546.9	9.6%
4	2	Company F	Private-owned	A listed professional manufacturer of various seamless steel pipes. Its products are mainly high-end such as small caliber OCTG.	1,510.8	9.4%
5	—	Company E	State-owned	A leading steel manufacturing companies in the PRC, its products cover a wide range of industries.	1,490.4	9.3%
6	3	Company D	Private-owned	A listed company specialising in petroleum machinery processing, manufacturing, sales and services.	1,477.4	9.2%
7	—	Company C	State-owned	A leading steel manufacturing enterprise in the PRC and the majority of its OCTG products are plain-end pipes.	458.6	2.9%
8	4	Company G	Private-owned	Specialises in the manufacture of seamless steel pipes for petroleum. It was acquired in by a foreign company in 2016.	437.3	2.7%
9	5	Company H	Private-owned	Specialises in the production of plain-end pipes. Its main products are large-diameter plain-end pipes mainly used for export.	288.5	1.8%
10	6	Company I	Private-owned	A company specialising in the production and sales of seamless steel pipes.	50.4	0.3%
		Subtotal			**14,438.5**	**89.9%**
		Total			**16,065.3**	**100.0%**

Source: CIC Report

Meanwhile we ranked second among all of the private-owned OCTG manufacturers and sixth among all of the OCTG manufacturers in the PRC in terms of the sales value of plain-end pipes in 2018, with sales value of RMB244.7 million and a market share of 3.4%. According to the CIC report, plain-end pipes market is a more fragmented market compared with the OCTG market. Moreover, the majority of plain-end pipes customers are OCTG processing factories which are generally affiliated to the oil companies. Therefore, the OCTG manufacturers with stable customer partnerships with oil companies will gain a greater market share as long as they have sufficient production capacities.

Ranking of OCTG manufacturers in terms of sales value of plain-end pipes, the PRC, 2018

Overall ranking	Private-owned manufacturers ranking	Company	Background	Sales value (RMB million)	Market share
1	—	Company C	State-owned	1,624.6	22.7%
2	1	Company D	Private-owned	1,080.5	15.1%
3	—	Company A	State-owned	886.6	12.4%
4	—	Company E	State-owned	870.3	12.2%
5	—	Company B	State-owned	307.9	4.3%
6	2	Our company	Private-owned	244.7	3.4%
7	3	Company F	Private-owned	215.9	3.0%
8	4	Company I	Private-owned	183.1	2.6%
9	5	Company H	Private-owned	95.8	1.3%
10	6	Company G	Private-owned	20.6	0.3%
		Subtotal		**5,530.1**	**77.3%**
		Total		**7,150.5**	**100.0%**

Source: CIC Report

In terms of the sales value of "overall OCTG products", which includes OCTG and semi-finished products (namely plain-end pipes), we ranked second among all of the private-owned OCTG manufacturers and sixth among all of the OCTG manufacturers in 2018, with sales revenue in the PRC of RMB1,791.6 million and a market share of 7.7%. The entry barrier of the PRC's OCTG market is relatively high, leading to a high market concentration. The sales value of overall OCTG products of the top 10 companies in 2018 accounted for approximately 86.0% of the total market.

Ranking of OCTG manufacturers in terms of sales value of overall OCTG products, the PRC, 2018

Overall ranking	Private-owned manufacturers ranking	Company	Background	Sales value (RMB million)	Market share
1	—	Company A	State-owned	4,559.0	19.6%
2	—	Company B	State-owned	3,813.8	16.4%
3	1	Company D	Private-owned	2,558.0	11.0%
4	—	Company E	State-owned	2,360.7	10.2%
5	—	Company C	State-owned	2,083.3	9.0%
6	2	Our company	Private-owned	1,791.6	7.7%
7	3	Company F	Private-owned	1,726.7	7.4%
8	4	Company G	Private-owned	457.9	2.0%
9	5	Company H	Private-owned	384.2	1.7%
10	6	Company I	Private-owned	233.5	1.0%
		Subtotal		**19,968.6**	**86.0%**
		Total		**23,215.8**	**100.0%**

Source: CIC Report

KEY FACTORS TO STAY COMPETITIVE IN OCTG INDUSTRY IN THE PRC

- **Cost control capabilities:** In OCTG market, obtaining a competitive price through effective cost control is a key factor for OCTG suppliers to beat the competition which mainly includes the cost of raw materials, auxiliary materials, manpower, equipment depreciation and energy costs. Accordingly, the price of an OCTG product is mainly determined by the price of raw materials and the total cost of manufacturing. Furthermore, the overall cost of producing pipe billets by scrap metal is significantly lower than purchasing pipe billets from other manufacturers, compared to pipe billets, both the price and the supply of scrap metal are more stable. Thus, using scrap metal to produce pipe billets independently is a more economical way to produce OCTG. In other words, companies that are integrated into the industrial value chain to have the capability to produce pipe billets by itself and have effective cost control of production process are capable to be more competitive in the market.

- **Product quality and research capabilities:** In the selection of OCTG products, buyers will pay special attention to the quality of the products. The quality of the products also determines whether the OCTG suppliers can enter the list of suppliers of CNPC, Sinopec and CNOOC. The quality of OCTG products is mainly reflected in two aspects: (i) the physical and chemical properties of OCTG products' materials; and (ii) the precision and strength of the connectors between two casings or two tubings. The physical and chemical properties of OCTG products' material are mainly reflected in the composition design and processing control, in response to twisting force, tangential force, temperature resistance and corrosion resistance. Another important criterion for the quality of OCTG products is the precision and strength of the connectors between two OCTG products or special coupling, which is mainly reflected in air tightness, joint strength, and ease to coupling. Thus, companies which hold the capabilities in R&D to produce high quality pipe billets and couplings will have the competitive advantage.

- **Good Track Record:** CNPC, Sinopec, CNOOC, and Yanchang Petroleum are the only four companies in the PRC with oil and gas exploration and development qualifications. Therefore, PRC's oilfield services and equipment industry is a market where buyers have more bargaining power. In such a market, establishing long-term partnerships with buyers is more beneficial for oilfield services and equipment companies and OCTG producers. In general, these oil companies' selection process for oilfield equipment suppliers is very strict, they conduct a rigorous audit process of the suppliers on the supplier list each year. These oil companies evaluate the performance of OCTG suppliers in their cooperation over the past few years. The past performance of a supplier is also one of the important criteria when they choose new suppliers. Thus it is especially important to maintain good partnerships with customers of OCTG manufacturers.

- **Service Capability:** Based on the characteristics of oilfield exploration and development, guaranteed on-time and efficient supply is the primary consideration for oilfield services and equipment companies to ensure the service quality. The OCTG suppliers which are able to provide flexible supply and respond quickly to oil and gas field production demand attract more customers. OCTG products have special characteristics: considering the different geographical environments, soil quality, and corrosive properties of oil and gas fields, it is very common to customise product specifications to meet temporary requirements such as change thickness or materials. Therefore, the ability to manufacture customised products is particularly important for OCTG manufacturers.

ENTRY BARRIERS FOR THE OCTG INDUSTRY IN THE PRC

- **Industry standards and certificates:** The quality of OCTG is directly related to the investment and risk control of the oil companies, thus the PRC Big-3 NOC strictly assess the suppliers' qualifications and conduct suppliers' qualification audits every year, even implemented on-site verification to the production enterprises. In addition, previous product quality and supply performance of suppliers were assessed, constitutes a high entry barrier of the industry. API certification is an essential qualification for OCTG manufacturers. The certification process is complex and the standards are detailed. Moreover, there are independent, strict and systematic standards for OCTG products, which are high requirements for the quality control capability of new entrants.

- **Understanding of the industry:** The market concentration of the oilfield services and equipment industry is high. The oligopolistic market players set certain sales and procurement requirements for entrants, and dominate the OCTG industry. They have stringent requirements for their suppliers and OCTG producers. They require OCTG producers to have an in-depth understanding of oil and gas exploration technology as well as the safety in the production procedures of oil and gas. These requirements are difficult for new entrants to achieve.

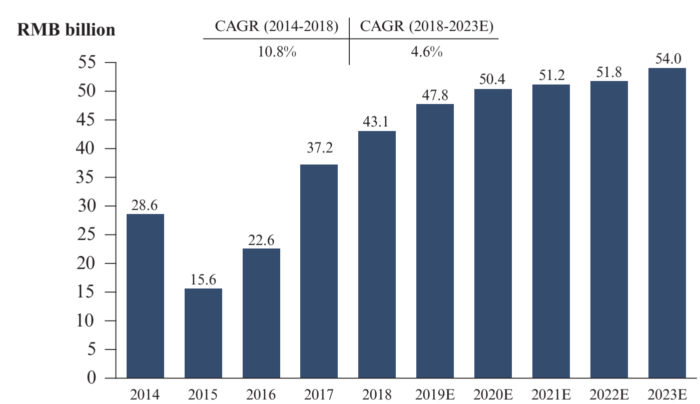
- **Technical expertise and manufacturing experience:** Since the professionalisation of the industry is significantly high, manufacturers in the OCTG industry must have advanced equipment and processing technology in order to survive. Manufacturers need to be familiar with all kinds of pipeline production technologies, and improve products according to the specific conditions of the oilfields. It takes a lot of testing to accumulate the product material key performance, related technologies and experience. For example, different grades of OCTG products are subject to long-term research and testing due to different product specifications and parameters. All OCTG manufacturers have high confidentiality of their core technologies, and some have applied for patents. It is difficult for new entrants to have rich technical expertise and production experience in a short period of time, and they face high technical barriers for R&D.

OVERVIEW OF THE PIPE BILLETS MARKET IN THE PRC

Market size of the pipe billets market in the PRC

According to the CIC Report, since the Supply-side reform in 2015, with the readjusting industrial structure, reducing use of outdated capacity and improving industry profits, the size of pipe billets market in the PRC in terms of sales value has increased from RMB15.6 billion in 2015 to RMB43.1 billion in 2018, at a CAGR of 40.3%. As the raw material of other oil pipes, the sales value of pipe billets in PRC is projected to maintain increasing by 2023 at a CAGR of 4.6%. The chart below presents the growth of sales value of pipe billets in the PRC for the periods presented:

Market size of the pipe billets in terms of sales value[1], PRC, 2014–2023E



Source: CIC Report

Market size of the pipe billets in terms of sales value[1] is the revenue of pipe billets among major pipe billet manufacturers in the PRC.

Competitive analysis of pipe billets in the PRC

PRC's overall pipe billets market is fragmented with hundreds of pipe billets manufacturers and lack of market leaders. In the PRC OCTG market, only a few OCTG manufacturers with sufficient pipe billet production capacity sell pipe billets externally. In terms of sales value of pipe billets in 2018, we ranked first among all of the OCTG manufacturers in the PRC, with the sales value of RMB1,039.7 billion and a market share of 2.4%.

Ranking of OCTG manufacturers in terms of sales value of pipe billets, the PRC, 2018

Overall ranking	Private-owned manufacturers ranking	Company	Background	Sales value (RMB million)	Market share
1	1	Our Company	Private-owned	1,039.7	2.4%
2	—	Company C	State-owned	412.5	1.0%
3	—	Company E	State-owned	221.4	0.5%
4	2	Company I	Private-owned	94.3	0.2%
		Subtotal		**1,767.9**	**4.1%**
		Total		**43,142.7**	**100.0%**

Source: CIC Report

The entry barriers of the PRC's pipe billets market are relatively low. New entrants of the pipe billets market are required to have sufficient and solid customer base, as well as the strict assessment for the proven track record of products quality and supply performance.

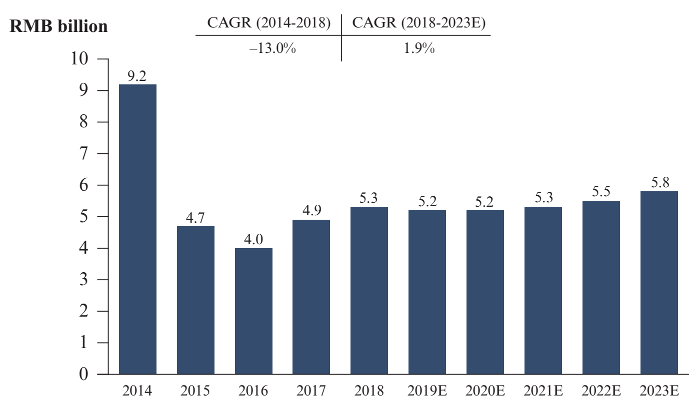
The business opportunities and challenges of the pipe billets market in the PRC mainly include fluctuating demand from the seamless steel pipes market and the government policies. The production volume of the pipe billets will be greatly affected by the demand from the seamless steel pipes industry. Therefore, the fast development of the seamless steel pipes industry brings not only opportunities but also challenges to the pipe billets market. Additionally, favorable government policies for steel industry such as Deepening Supply-side Reform will create new business opportunities for the pipe billets industry.

OVERVIEW OF OCTG EXPORT MARKET IN THE PRC

Market size of the export market of OCTG in the PRC

According to the CIC Report, the export market size of PRC's OCTG market in terms of sales value decreased from RMB9.2 billion in 2014 to RMB5.3 billion in 2018, representing a CAGR of –13.0%, the reason behind this decreasing trend includes the geopolitics in the exported countries, the anti-dumpling policies released from the U.S. and the competition from exported countries' local manufactures. While in 2018, with the shift of export destinations, the OCTG manufacturers in the PRC have chosen to export more in the Middle East, South Asia and other developing countries, the export market size in terms of sales value is expected to reach RMB5.8 billion in 2023. The chart below presents the growth of export volume of OCTG in the PRC for the periods presented:

Market size of the OCTG export market in terms of sales value, PRC, 2014–2023E



Source: CIC Report

Competitive analysis of export market of OCTG in the PRC

The entry barrier of PRC's OCTG export market is relatively high, leading to a high market concentration, the export sales value of overall OCTG products of the top 10 OCTG manufacturers in 2018 accounted for approximately 93.3% of the total market. In terms of the export sales value of overall OCTG products in 2018, we ranked third among all of the private-owned enterprises and seventh among all of the OCTG manufacturers, with the export sales value of RMB263.5 billion and a market share of 5.0%.

Ranking of OCTG manufacturers in terms of sales value of export market, the PRC, 2018

Overall ranking	Private-owned manufacturers ranking	Company	Background	Sales value (RMB million)	Market share
1	—	Company A	State-owned	1,376.4	26.1%
2	1	Company F	Private-owned	908.3	17.2%
3	—	Company B	State-owned	631.0	12.0%
4	—	Company E	State-owned	627.9	11.9%
5	2	Company D	Private-owned	413.6	7.8%
6	—	Company C	State-owned	265.6	5.0%
7	3	Our company	Private-owned	263.5	5.0%
8	4	Company H	Private-owned	208.6	4.0%
9	5	Company G	Private-owned	163.0	3.1%
10	6	Company I	Private-owned	58.5	1.1%
		Subtotal		**4,916.3**	**93.3%**
		Total		**5,269.3**	**100.0%**

Source: CIC Report

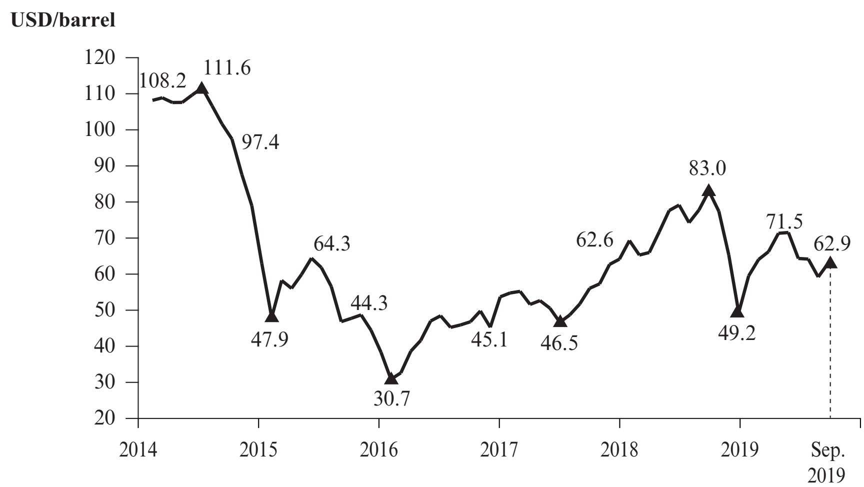
With competition from other exporters over the world, the quality of exported overall OCTG products has become more important. Both the quality of the product materials and the coupling must comply with API standards, and the better the capabilities of the products, the higher the possibility of being favored by international customers. The customer access and services capabilities, sales channel development and cost control capabilities are also the key entry barriers for new entrants.

As oil companies continue to expand their business, new oilfields exploitation will bring new demand for oilfield equipment industry. However the instability of OCTG demand resulted from global geopolitics such as sanctions or trade disputes is a potential future challenge for OCTG exporters. In some importing countries, the production capability of local OCTG manufacturers is also increasing, and their competition may bring new challenges for PRC's OCTG exporters.

Overview of global oil prices

Global oil prices experienced a fluctuated period for the past five years, the Brent crude oil prices decreased from USD108.2 per barrel in Jan 2014 to USD62.9 per barrel in September 2019. The chart below presents the historical trend of global oil prices from Jan 2014 to September 2019:

Brent oil prices, global, January 2014–September 2019



Source: International Petroleum Exchange, CIC report

According to CIC report, the global oil prices are greatly affected by, among others, geopolitical risks such as sanctions or trade disputes, productivity, and shifting national energy strategies. Specifically, short-term fluctuations in global oil prices are mainly determined by market adjustments on supply side, and the long term fluctuations generally affected by the demand of the major oil importing countries.

POLICIES RELATING TO FOREIGN INVESTMENT IN THE PETROLEUM PIPELINE INDUSTRY

Foreign investments in different industries in the PRC are regulated through the Guidance Catalogue of Industries for Guiding Foreign Investment (《外商投資產業指導目錄》) (hereinafter referred to as the "**Catalogue**") jointly amended and promulgated by the NDRC and the MOFCOM from time to time. Pursuant to the new Catalogue of Industries for Encouraged Foreign Investment (《鼓勵外商投資產業目錄》) with effect from 30 July 2019 and Special Administrative Measures for Admission of Foreign Investments (Negative List) (《外商投資准入特別管理措施(負面清單)》) with effect from 30 July 2019, the manufacture of special petroleum pipeline is a permitted foreign investment project.

CERTIFICATION OF HIGH AND NEW TECHNOLOGY ENTERPRISES

According to the Notice of the Ministry of Science, the Ministry of Finance and the State Administration of Taxation on Amendment to the Issuing of the Administrative Measures for the Determination of High and New Tech Enterprises (Guo Ke Fa Huo [2016] No. 32) (《科學技術部、財政部、國家稅務總局關於修訂印發《高新技術企業認定管理辦法》的通知》(國科發火[2016]32號)) (hereinafter referred to as the "**Amendment to the Issuing of the Administrative Measures for the Determination of High and New Tech Enterprises**") jointly promulgated by the Ministry of Science and Technology of the PRC, the MOF and the SAT on 29 January 2016 with effect from 1 January 2016, a resident enterprise registered within the PRC (excluding Hong Kong, Macau and Taiwan) which, within the High and New Technology Areas Specifically Supported by the State (《國家重點支持的高新技術領域》), conducts ongoing research and development and transformation of technological achievement, forming its core independent intellectual property rights based on which business activities are carried out, is a High and New Technology Enterprise upon certification. The science and technology administrative authorities of provinces, autonomous regions, municipalities and specifically-designed cities in the state plan together with the fiscal and taxation authorities at their respective levels shall form their respective High and New Technology Enterprise certification and administration authorities for the certification of enterprises in their respective administrative regions. A qualified enterprise will be issued the High and New Technology Enterprise Certificate (《高新技術企業證書》) and the qualification of a certificated enterprise shall be valid for a term of three years from the issuance date of the certificate. Change of company name or material changes in relation to the certification criteria such as spin-off, merger and restructuring or change in business activities occurred in a High and New Technology Enterprise shall be reported to the certification authority within three months upon occurrence. The qualification of a High and New Technology Enterprise shall remain unchanged if it satisfies the certification conditions upon review by the certification authority. In relation to change of company name of a High and New Technology Enterprise, it will be reissued a certificate with number and valid period unchanged. A High and New Technology Enterprise shall be disqualified from the year of change of company name or change of conditions if it does not satisfy the certification conditions.

LAWS AND REGULATIONS RELATING TO TAXES

EIT

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (Order No. 64 of the President) promulgated by the National People's Congress on 16 March 2007 with effect from 1 January 2008 and amended on 24 February 2017, and the Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) (Order No. 512 of the State Council) promulgated by the State Council on 6 December 2007 with effect from 1 January 2008, enterprises are categorised into resident enterprises and non-resident enterprises. Enterprises established inside China in accordance with the law or enterprises established under the laws of foreign jurisdiction but with its de facto administrative institution inside China are resident enterprises, which shall pay the EIT at the tax rate of 25% on its income originating from both inside and outside China. Non-resident enterprises that have set up branch offices or establishments in the PRC must pay enterprise income tax in relation to income sourced within the PRC and obtained by such branch offices or establishments, as well as income generated from outside the PRC but with actual connections to such branch offices or establishments at the tax rate of 25%. Non-resident enterprises with no branch offices or establishments, or no actual connection between their income and their branch offices or establishments in the PRC, must pay enterprise income tax in relation to income sourced within the PRC at a reduced tax rate of 10%. High and New Tech Enterprises to which the State needs to give key support are entitled to a reduced enterprise income tax rate of 15%. Outgoings incurred by enterprises in connection to the (1) R&D expenses in the development of new technologies, new products and new techniques; (2) wages paid by enterprises for job placement for the disabled and of other personnel encouraged by the State can be additionally deducted when calculating taxable income. For business transactions between an enterprise and its related parties which are not in conformity with the arm's length principle and which would result in reduction of the amount of taxable income or income of the enterprise or its related parties, the PRC tax authority shall have the right to make tax adjustments in accordance with reasonable methods. Costs incurred due to joint development, assignment of intangible assets, or joint provision or acceptance of labour resource shall be shared between the parties according to an arm's length principle when calculating taxable income. Enterprises may file to the tax authority an application for their pricing principle and calculation method of the business transactions with its related parties, for which the tax authority and enterprises will undergo negotiation and confirmation and reach an advance pricing arrangement thereafter. Borrowing costs incurred by enterprises during operating activities which are reasonable under circumstances and are not required to be capitalised can be deducted. In respect to the borrowings raised by enterprises for the purpose of purchasing and building fixed assets and intangible assets or inventories, which required a building period of more than 12 months before the inventory can reach a predetermined saleable state, the costs of these borrowings incurred during the purchase and building process of such assets that are reasonable under circumstances shall be included in the cost of such assets as capital expenditure and deducted according to the requirement of this provision.

According to the Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax for High-tech Enterprises (Guo Shui Han [2009] No. 203) (《國家稅務總局關於實施高新技術企業所得稅優惠有關問題的通知》), which was issued by the SAT on 22 April 2009 and implemented from 1 January 2008, and the Notice Relating to the Amendment and Issuance of the Administrative Measures for Certification of High and New Technology Enterprises (《修訂印發〈高新技術企業認定管理辦法〉的通知》), qualified (reviewed) high and new technology enterprises may apply for the preferential enterprise income tax treatments from the year in which the validity period of qualification (reviewed) commences. The enterprise can apply for the registration of reduced or waived tax from the tax competent authorities with the copies of High and New Technology Enterprise Certificate and relevant documents. After completion of the procedures, the High and New Technology Enterprises can file their provisional income tax returns at the rate of 15% or enjoy the transitional preferential tax treatments.

Value-added tax

According to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) (Order No. 691 of the State Council), which was promulgated by the State Council on 13 December 1993 and implemented from 1 January 1994, and last amended on 19 November 2017, the Implementation Rules of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 65 of the Ministry of Finance), which was amended by the Ministry of Finance on 28 October 2011 and implemented from 1 November 2011, and the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) (Cai Shui [2018] No.32), which was promulgated by the Ministry of Finance and the State Administration of Taxation on 4 April 2018, and became effective from 1 May 2018, and Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs [2019] No.39), which was promulgated by the Ministry of Finance, the State Administration of Taxation and General Administration of Customs on 20 March 2019, and became effective from 1 April 2019, all entities and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales services, intangible assets and immovable property or the import of goods within the territory of the PRC shall be subject to value-added tax. The value-added tax rates shall be 13%, 9%, 6% and 0%, depending on specific tax items.

Urban maintenance and construction tax and education surcharges

According to the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surcharges Paid by Domestic and Foreign-invested Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guo Fa [2010] No. 35), which was promulgated by the State Council on 18 October 2010 and became effective from 18 October 2010, the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民共和國城市維護建設稅暫行條例》) and the Provisional Rules on Collection of Education Surcharges (《徵收教育費附加的暫行規定》), urban maintenance and construction tax and education surcharges shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

Pursuant to the Provisional Regulations on Urban Maintenance and Construction Tax of the PRC (Order No. 588 of the State Council), which was promulgated by the State Council on 8 February 1985 and subsequently amended on 8 January 2011, all entities or individuals who are required to pay consumption tax, value-added tax and business tax shall also be subject to urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the amount of the consumption tax, value-added tax and business tax actually paid by the taxpayer and shall be made simultaneously. The rates of urban maintenance and construction tax shall be set at 7%, 5% and 1% for a taxpayer located in a city, in a county town or town and in a place other than a city, county town or town, respectively.

In accordance with the Provisional Rules on the Collection of Education Surcharges (Order No. 588 of the State Council), which was promulgated by the State Council on 28 April 1986, and subsequently amended on 7 June 1990, 20 August 2005 and 8 January 2011 respectively, all entities and individuals who pay consumption tax, value-added tax and business tax shall also be subject to education surcharges. The rate of education surcharges is set at 3% of the amount of value-added tax, business tax and consumption tax actually paid by each entity or individual, and the education surcharges shall be paid simultaneously with the value-added tax, business tax and consumption tax.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

Pursuant to the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法》) (Order No. 51 of the President), which was promulgated by the NPC on 12 April 1986, subsequently amended by the SCNPC on 31 October 2000 and 3 September 2016 and became effective on 1 October 2016 and the Implementation Rules of the Wholly Foreign-owned Enterprises Law of the PRC (《中華人民共和國外資企業法實施細則》) (Order No. 648 of the State Council), which was implemented on 12 December 1990, and subsequently amended by the State Council and became effective on 19 February 2014, legal profits, other legal income and funds on liquidation obtained by foreign investors from wholly foreign-owned enterprises can be remitted out of the country. Wholly Foreign-owned enterprises shall not distribute profits before offsetting losses from previous accounting years; undistributed profits from previous accounting years can be distributed together with the distributable profits of the current accounting year.

According to the Arrangement between the Mainland of the PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Incomes (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which was promulgated by the SAT on 21 August 2006, 5% withholding tax rate shall apply to the aggregate dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident holds at least 25% of the equity interests in the PRC company, and 10% of the aggregate dividends shall apply if the Hong Kong resident holds less than 25% of the equity interests in a PRC company.

Pursuant to the Circular on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaties of the SAT (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied where a fiscal resident of the other party to a tax treaty needs to be entitled to such tax treaty treatment as being taxed at a tax rate specified in the tax treaty for the dividends paid by a Chinese resident company: (1) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (2) owner's equity interests and voting shares of the Chinese resident company directly owned by such a fiscal resident reaches a specified percentage; and (3) the equity interests of the Chinese resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reach a percentage specified in the tax treaty.

Pursuant to Announcement No. 60 [2015] of the State Administration of Taxation-Announcement on Issuing the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (《關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告》), which was issued by the SAT on 27 August 2015 and became effective on 1 November 2015, a non-resident taxpayer who would like to enjoy the preferential tax treatment under the tax treaties, such non-resident shall submit the relevant reporting forms and documents by himself/herself when paying tax and reporting or through the tax withholder when withholding and reporting. If a non-resident taxpayer is qualified to enjoy the tax treaties treatment but has not enjoyed the same and has paid more tax because of not enjoying the treatment, the non-resident taxpayer shall require to get refunded from the competent tax authorities by himself/herself or through the tax withholder in prescribed period. At the same time, such non-resident taxpayer shall submit relevant reporting forms and documents and description for making up the tax treatment.

LAWS AND REGULATIONS RELATING TO ESTABLISHMENT, OPERATION AND MANAGEMENT OF WHOLLY FOREIGN-OWNED ENTERPRISES

The establishment, operation and management of corporate entities in China shall be in compliance with Company Law of the People's Republic of China (《中華人民共和國公司法》) (hereafter referred to as the "**Company Law**"), which was promulgated on 29 December 1993 and became effective from 1 July 1994 by the Standing Committee of the NPC. The Company Law (Order No. 15 of the President) was finally amended and became effective on 26 October 2018. The Company Law applies to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The establishment procedures, verification and approval procedures, registration registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of wholly foreign-owned enterprises are governed by Wholly Foreign-Owned Enterprises Law of the PRC (《中華人民共和國外資企業法》) (Order No. 51 of the President), which was implemented on 12 April 1986 and was amended on 31 October 2000 and 3 September 2016, respectively, and effective from 1 October 2016, and are governed by Detailed Rules for the Implementation Rules of the Law of the People's Republic of China on Wholly Foreign-owned Enterprises (《中華人民共和國外資企業法實施細則》) (Order No. 648 of the State Council), which was implemented on 12 December 1990 and was amended on 19 Feb 2014 and effective from 1 March 2014.

Foreign investors and foreign-owned enterprises that conduct investment in the PRC must comply with Catalogue of Industries for Encouraged Foreign Investment (《鼓勵外商投資產業目錄》) (Order No.27 of the National Development and Reform Commission of the PRC and the Ministry of Commerce of the PRC), which was promulgated on 30 June 2019 and became effective from 30 July 2019 and the Special Administrative Measures for Access of Foreign Investment (Negative List) (《外商投資准入特別管理措施(負面清單)》) (Order No.25 of the National Development and Reform

Commission of the PRC and the Ministry of Commerce of the PRC), which was amended on 30 June 2019 and became effective on 30 July 2019. Pursuant to the Catalogue, projects on foreign investment could be categorised into encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. It is subject to review and update by the Chinese government from time to time.

Pursuant to Interim Provisions on the Investment of Foreign-invested Enterprise in China (《關於外商投資企業境內投資的暫行規定》), which was implemented by Ministry of Foreign Trade and Economic Cooperation (reformed), and State Administration for Industry and Commerce on 1 September 2000 and amended on 26 May 2006 and 28 October 2015, foreign investment enterprises may invest in encouraged and permitted projects in the PRC, but shall not invest in prohibited projects.

LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE MANAGEMENT

The management system of foreign exchange in the PRC is stringent and has undergone several profound changes. Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》) (Order No. 532 of the State Council) (hereafter referred to as the "**Regulations on the Foreign Exchange**") which was promulgated on 29 January 1996 and implemented on 1 April 1996, and subsequently amended and became effective on 5 August 2008 by the State Council, is the existing major regulations on the foreign exchange management and applicable to the incomes and expenditures of the foreign exchange or operating activities for organisations and individuals residing in the PRC as well as the incomes and expenditures of the foreign exchange or foreign exchange operating activities for organisations and individuals residing aboard. The Administrative Regulations on Foreign Exchange Settlement, Sales and Payment (《結匯、售匯及付匯管理規定》), which was promulgated by the People's Bank of China on 20 June 1996 and implemented on 1 July 1996, stipulates the matters such as settlement and purchase of and payment in foreign exchange as well as the opening of foreign exchange accounts and the overseas payment for the local institutions, resident individuals, organisations established in the PRC and foreign nationals.

According to the current Regulations on the Foreign Exchange, the PRC government allows foreign exchange to be retained by the domestic organisations and individuals without compulsory sale and settlement, the foreign exchange income from whom can be remitted back to China or deposited outside China according to the regulations. The PRC has realised the exchange for current account in RMB. For the current account transactions with foreign exchanges incomes of the domestic enterprises, they can decide to retain or sell to financial institutions operating foreign exchange settlement and sale business depending on their own requirements in accordance with relevant state regulations. For the foreign exchange payments from current account of the domestic enterprises, enterprises pay by its own foreign exchange with valid certificates or by purchasing foreign exchanges from the financial institution operating settlement and sale of foreign exchange depending on their own requirement and in accordance with administrative regulations relating to payment and purchase of foreign currency required by foreign exchange authorities of the State Council. The convertibility of RMB (into foreign currency) for capital account items is not available yet in the PRC and capital account items is still under restriction. Foreign institutions and individuals who directly invest in and issue or trade negotiable securities or derivatives products in the PRC, as well as the domestic institutions and individuals who directly invest overseas and issue or trade the negotiable securities or derivatives products beyond the PRC, shall obtain approval from or make a filling with the relevant competent authority before making the appropriate registrations with the relevant foreign exchange administration authority. The domestic enterprises borrowing foreign debts or guarantee externally shall go through the registration of foreign debts and external guarantee. The retention and sales of foreign income from capital items to the financial institution operating foreign exchange settlement and sale business shall be approved by the foreign exchange regulatory authorities (except for those that no approval is required by the State). The funds for foreign exchange and settlement of capital items shall be used in regard with the purpose approved by the related competent authorities and foreign control authorities.

According to Circular of the State Administration of Foreign Exchange on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special-Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (Hui Fa [2014] No. 37) promulgated and implemented on 4 July 2014 by SAFE replacing the former SAFE Circular 75 effective on 1 November 2005, domestic residents (including domestic institution and domestic resident natural persons) are required to register with the competent local branch of SAFE before they make contribution to any offshore special purpose vehicles with legitimate holdings of domestic or overseas assets or interests. Resident natural persons include those individuals who have PRC citizenship or other domestic legal status and those individuals who do not have any domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests. In accordance with the Appendix 1 of the Circular 37, i.e. Operating Guidelines for the Business Involved in the Foreign Exchange Administration of Round-trip Investment, individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests mean foreign citizens (including stateless persons) holding passports as well as Hong Kong, Macau and Taiwan residents with Mainland Travel Permit for Hong Kong and Macau Residents or Mainland Travel Permit for Taiwan Residents, including, specifically, the following: (1) individuals who have domestic permanent residence and leave this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirement of overseas residence, etc., but return to the permanent residence after the disappearance of the aforesaid reasons; (2) individuals who hold domestic-funded rights and interests in domestic enterprises; and (3) individuals who hold domestic-funded rights and interests in domestic enterprises which though were converted into foreign-funded rights and interests are still held by such individuals.

According to the Notice of the State Administration of Foreign Exchange of Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13) promulgated by the SAFE on 13 February 2015 and implemented on 1 June 2015, the initial foreign exchange registration for establishing or taking control of a special purpose vehicle by domestic residents can be filed with a qualified bank, instead of the local foreign exchange bureau. Pursuant to the Circular of the State Administration of Foreign Exchange on Reforming the Management Approach Regarding the Settlement of the Foreign Exchange Capital of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (Hui Fa [2015] No. 19) promulgated by the SAFE on 30 March 2015 and implemented on 1 June 2015, foreign-invested enterprises can settle foreign exchange capitals on a discretionary basis; the foreign-invested enterprises may, according to its actual business requirements, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are temporarily allowed to settle 100% of their foreign exchange capitals on a discretionary basis. The State Administration of Foreign Exchange may adjust the foregoing percentage as appropriate based on prevailing international balance of payments. In addition, a foreign invested enterprise shall not use foreign exchange receipts under capital account and RMB funds from their settlement for the following purposes: (1) to directly or indirectly cover the expenditure beyond its business scope or the expenditure prohibited by State laws and regulations; (2) to directly or indirectly invest in securities or in financing products except for capital-protected products issued by banks (unless otherwise expressly prescribed by laws and regulations); (3) to grant loans to non-affiliated enterprises (unless expressly permitted within its business scope); and (4) to construct or purchase real estate not for its own use (unless it is a real estate enterprise).

REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

According to the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), which was promulgated by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, SAT, SAIC, CSRC and SAFE on 8 August 2006 and became effective on 8 September 2006, and was amended on 22 June 2009, the following scenarios qualify as an acquisition of a domestic enterprise by a foreign investor: (1) a foreign investor purchases the equity interests of a domestic enterprise without foreign investment or subscribes for the increased capital of such domestic enterprise, and thus converts such domestic enterprise into a foreign-invested enterprise; (2) a foreign investor establishes a foreign-invested enterprise and use such foreign invested enterprise to purchase by agreement the assets of a domestic enterprise and operates such assets; or (3) a foreign investor purchases by agreement the assets of a domestic enterprise and then contribute such assets as capital to establish a foreign-invested enterprise and operates such assets. Where a foreign investor establishes a foreign-invested enterprise by merging or acquiring a domestic enterprise, it shall be subject to the approval of relevant institutions and shall apply for registration or change of registration with administrative institutions of registration.

REGULATIONS RELATING TO COPYRIGHT

Patent law

According to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) (Order No. 8 of the President) which was amended on 27 December 2008 and became effective on 1 October 2009, the State Intellectual Property Office is in charge of the administration of patents in the PRC. The patent administration departments of provincial, autonomous region or municipal governments are in charge of the administration of patents within their respective jurisdictions. The Chinese patent system adopts a "first come, first file" principle, which means, where more than one person files a patent application for the same invention respectively, a patent will be granted to the person who files the application first. To be able to register with patent, invention or utility models must meet three criteria: novelty, inventiveness and practicability. A patent is valid for 20 years in the case of an invention and 10 years in the case of utility models and designs, counted from the date of application. The patent owner shall pay amount fees commencing from the year when the patent right is granted. While the annual fee is not paid as specified, the patent right shall be terminated before the expiration of duration. A third-party must obtain consent or a proper licence from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent right and the infringer shall, in accordance with applicable regulations, undertake to stop infringement, take remedial actions and/or compensate for any damages.

Trademark law

According to Trademark Law of the People Republic of China (《中華人民共和國商標法》) (Order No. 6 of the President), which was amended on 30 August 2013 and became effective from 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be 10 years, counted from the day on which the registration is approved. If necessary, a registrant may renew the registered trademark after the period of validity expires, and the renewal procedure shall be handled within 12 months before the expiration. The period of validity for each renewal of registration shall be 10 years. Using a trademark that is identical with a registered trademark on the same goods without the licensing of the trademark registrant; or using a trademark that is similar to a registered trademark on the same goods, or using a trademark that is identical with or similar to the registered trademark on similar goods without the licensing of the registrant of the registered trademark, which is likely to cause confusion, selling the commodities that infringe upon the right to the exclusive use of a registered trademark; forging, manufacturing the marks of a registered trademark of others without authorisation, or selling the marks of a registered trademark forged or manufactured without authorisation; altering another party's registered trademark without authorisation and selling goods bearing such altered trademark in the market; providing convenience for or even help others to infringe the exclusive right to use a registered trademark on purpose constitute an infringement upon the exclusive right to use a registered trademark. The infringer shall undertake to stop infringement, take remedial actions, and compensate for any damages, etc. Such infringer may also be imposed a fine or even be investigated into for the criminal responsibilities.

Domain name

According to the Measures for the Administration of Internet Domain Names (《互聯網域名管理辦法》) (Order No. 43 of the Ministry of Industry and Information Technology) (hereinafter referred to as the "**Measures for Administration of Domain Names**"), which was issued by the Ministry of Industry and Information Technology on 24 August 2017 and came into effect on 1 November, 2017, the Ministry of Industry and Information Technology shall be responsible for managing Internet network domain names in PRC. Where a domain name root server or a domain name root server operating institution, a domain name registration and a management institution and a domain name registration service institution is to be established within the territory of the PRC, the corresponding permit issued by the Ministry of Industry and Information Technology or the communication administration authority of the province, autonomous region or municipality directly under the Central Government shall be obtained in accordance with the Measures for Administration of Domain Names.

REGULATIONS RELATING TO ENVIRONMENT PROTECTION

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) (Order No. 9 of the President) promulgated by the Standing Committee of the National People's Congress on 24 April 2014 and with effect from 1 January 2015 (hereafter referred to as the "**Environmental Protection Law**"), for the purpose of protecting the environment from pollution and safeguarding the ecological environment, the competent department of environmental protection administration under the State Council shall, in accordance with the national standards for environment quality and the country's economic and technological conditions, establish the national standards for the discharge of pollutants. The people's governments of provinces, autonomous regions and municipalities directly under the central government may establish their local standards for the discharge of pollutants for items not specified in the national standards; with regard to items already specified in the national standards, they may set local standards for the discharge of pollutants which are more stringent than the national standards and report the same to the competent department of environmental protection administration under the State Council for record purposes. For enterprises, the more stringent of either the national or local standards for environmental protection shall be observed.

Pursuant to the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) (Order No. 70 of the President) promulgated by the National People's Congress on 11 May 1984, effective from 1 November 1984 and most recently amended on 27 June 2017, the discharge of water pollutants shall be within the state or local standards for the discharge of water pollutants and indicators for the total discharge control of major water pollutants. Enterprises and public institutions and other manufacturers and operators which directly or indirectly discharge industrial waste water or medical sewage to waters or which are required to obtain the pollutant discharge licence before discharging waste water and sewage water must obtain the pollutant discharge licence; and entities operating facilities and establishments for the concentrated treatment of urban sewage must also obtain the pollutant discharge licence. Pollutant discharge licences shall specify requirements regarding type, concentration, gross volume and discharge destination, etc. The power to provide for the specific measures for licensing pollutant discharge shall remain with the State Council. All enterprises and public institutions and other manufacturers and operators are prohibited from discharging the above-mentioned waste water and sewage to waters without the pollutant discharge licence or operating in violation of the terms of the pollutant discharge licence.

Pursuant to the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) (Order No.16 of the President) promulgated by the National People's Congress on 5 September 1987, effective from 1 June 1988 and most recently amended on 26 October 2018, when construction projects have an impact on atmospheric environment, enterprises, public institutions, and other business entities shall conduct environmental impact assessments and publish the environmental impact assessment documents according to the law; when discharging pollutants to the atmosphere, they shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants. Enterprises and public institutions discharging industrial waste gases or the toxic or hazardous atmospheric pollutants listed in the catalogue of rule no. 78 of the Law of the PRC on the Prevention and Control of Atmospheric Pollution, business entities using coal heat sources for central heating facilities, and other entities subject to pollutant discharging licensing administration shall obtain pollutant discharge licences. Iron and steel, building materials, nonferrous metals, oil, chemical and other enterprises which emit dust, sulphur compounds, NOx in the manufacturing process shall adopt clean production process, build complementary dust removal, desulfurisation, denitrification devices etc., or adopt technological transformation or other measures to control emission of atmospheric pollutants.

Pursuant to the Law of the People's Republic of China on Environment Impact Assessment (《中華人民共和國環境影響評價法》) (Order No. 77 of the President) promulgated by the Standing Committee of the National People's Congress on 28 October 2002 with effect from 1 September 2003 and most recently amended on 29 December 2018, and, Regulations on the Administration of Construction Project Environment Protection (《建設項目環境保護管理條例》) (Order No. 682 of the State Council), which was promulgated by the State Council and became effective on 29 November 1998 and most recently amended on 16 July 2017, the state implements classification management over the assessment of the environmental impacts of construction projects according to the level of such impacts on the environment. Prior to the commencement of a construction, environmental impact assessment documents of the construction project shall be reviewed and approved by the competent administrative authority of environmental protection in accordance with the law. Ancillary facilities for environmental protection of a construction project must be designed, constructed and put into production and use with the principal project at the same time.

Pursuant to the Environmental Protection Tax Law of the People's Republic of China (《中華人民共和國環境保護稅法》) (Order No. 16 of the President) promulgated by the Standing Committee of the National People's Congress on 25 December 2016 and with effect from 1 January 2018 and most recently amended on 26 October 2018, enterprises which produce atmospheric pollutants, water pollutants, solid wastes and noises specified in the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax (《環境保護稅稅目稅額表》) and the Schedule of Taxable Pollutants and Equivalent Values (《應稅污染物和當量值表》) shall, in accordance with the Schedule of Tax Items and Tax Amounts of Environmental Protection Tax and the Schedule of Taxable Pollutants and Equivalent Values, file tax returns for and pay environmental protection tax to the tax authorities on a quarterly/case-by-case basis. Environmental protection tax is levied and administered by the tax authorities in accordance with the relevant provisions of the Law of the People's Republic of China on the Administration of Tax Collection (《中華人民共和國稅收徵管理法》) and the Environmental Protection Tax Law of the People's Republic of China.

REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) (Order No. 13 of the President) promulgated by the Standing Committee of the National People's Congress on 29 June 2002, implemented on 1 November 2002 and last amended on 31 August 2014, production and business operation entities shall observe this law and other relevant laws and regulations concerning the production safety, strengthen the administration of production safety, establish and optimise the system of responsibility for and the rules and regulations on production safety, improve conditions for safe production, promote the development for the standardisation of safe production, enhance the level of production safety and ensure safe production is in place. Production and business operation entities should offer education and training programmes to their employees, ensuring that they possess the necessary knowledge of production safety. ,are familiar with the relevant regulations and rules for safe production and the rules for safe operation, and master the skills for safe operations for their own positions, while also getting to know the emergency measures for dealing with accidents and are aware of their own rights and obligations in terms of safe production. Operating personnels shall not perform duties before undergoing and passing safe production trainings.

Pursuant to the Special Equipment Safety Law of the People's Republic of China (Order No.4 of the President) (《中華人民共和國特種設備安全法》(主席令第4號)) promulgated by the Standing Committee of the National People's Congress on 29 June 2013 with effect from 1 January 2014, and the Regulations on the Safety Supervision of Special Equipment (Order No. 549 of the State Council)(《特種設備安全監察條例》(國務院令第549號)) promulgated by the State Council on 11 March 2003 with effect from 1 June 2003, and was last amended on 24 January 2009, special equipment products, components or new special equipment products, new components under trial production and new raw materials used in special equipment that are required by the safety technical specification to undergo safety verification by type testing, shall conduct their type testing in testing institutions approved by the competent authority responsible for the supervision and administration of special equipment safety. Those who failed to carry out type testing shall be ordered to rectify within a specified period, while those who failed to rectify when due, shall be imposed a fine of more than RMB30,000 but less than RMB300,000.

REGULATIONS RELATING TO LABOUR AND SOCIAL SECURITY

Regulations relating to labour

According to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) (Order No. 24 of the President), which was promulgated by SCNPC in 5 July 1994 with effect from 1 January 1995, and most recently amended on 29 December 2018, the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (Order No. 73 of the President), which was amended on 28 December 2012 and became effective on 1 July 2013, and the Regulations on the Implementation of Labour Contract Law of PRC (《中華人民共和國勞動合同法實施條例》) (Order No. 535 of the State Council), which was promulgated by State Council on 18 September 2008 and become effective on the same date. The labour contract is the basic form of employment adopted by PRC enterprises. Employers shall enter into labour contracts with employees within one month since the date of employment.

Social insurance and housing provident fund

According to the Social Insurance Law of the People Republic of China (《中華人民共和國社會保險法》) (Order No. 25 of the President), which was promulgated by SCNPC on 28 October 2010, and became effective on 1 July 2011, and most recently amended on 29 December 2018, the Interim Regulations Concerning the Levy of Social Insurance Fees (《社會保險費徵繳暫行條例》) (Order No. 710 of the State Council) promulgated and implemented by State Council on 22 January 1999 and amended on 24 March 2019, Regulations on Work-related Injury Insurance (《工傷保險條例》) (Order No. 586 of the State Council), which was promulgated by State Council on 27 April 2003 and was amended on 20 December 2010, Regulations on Unemployment Insurance (《失業保險條例》) (Order No. 258 of the State Council) promulgated and implemented by State Council on 22 January 1999, the Trial Measures for Maternity Insurance of Enterprise Employees (《企業職工生育保險試行辦法》) (Lao Bu Fa [1994] No. 504), which was promulgated by the Ministry of Labour and Social Security (revoked) on 14 December 1994 and implemented on 1 January 1995, enterprises shall pay the social insurance fees for their employees on time and in full amount covering basic pension insurance, unemployment insurance, basic medical insurance, labour injury insurance and maternity insurance. If an enterprise fails to pay the social insurance premiums on time or in full amount, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the overdue amount is still not settled within the stipulated time period, a fine with an amount of one to three times of the overdue amount will be imposed by relevant administration authorities.

According to the Regulation on Management of Housing Provident Fund (《住房公積金管理條例》) Order No. 710 of the State Council, which was promulgated and became effected on 3 April 1999 and amended on 24 March 2002, and most recently amended on 24 March 2019 a unit shall pay the housing provident fund on time and in full amount for their employees. Where a unit is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

REGULATIONS OVER PROPERTY OF THE PRC

Pursuant to a series of construction-related laws and regulations, including the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》), Law on Administration of Urban Real Estate of the PRC (《中華人民共和國城市房地產管理法》), the Construction Law of the PRC (《中華人民共和國建築法》), Administration Regulation on the Quality Management for Construction Projects (《建設工程質量管理條例》), Measures for Building Registration (《房屋登記辦法》) and the Provisions on Acceptance Inspection Upon Completion of House Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》), before obtaining the property ownership certificate, the developer of a construction project is required to obtain various permits, certificates and other approvals, including land use right certificate, the construction land planning permit, the construction project planning permit and construction permit in relation to such construction project. After completion of a construction project, the local government authorities would conduct an inspection and issue a certified report on the completed construction of properties and municipal infrastructure, or completion certificates, if the construction process and property comply with the relevant laws, rules and rules and regulations.

SANCTIONS LAWS AND REGULATIONS

Hogan Lovells, our International Sanctions Legal Advisers, have provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the U.S., the European Union, the United Nations and Australian sanctions in their entirety.

U.S.

Treasury regulations

OFAC is the primary agency responsible for administering U.S. sanctions programmes against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency or activities involving U.S.-origin goods, software, technology or services even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organised under U.S. law (such as U.S. companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorisation or licence from OFAC.

OFAC's comprehensive sanctions programmes currently apply to Cuba, Iran, North Korea, Syria, and the Crimea region of Russia/Ukraine (the comprehensive OFAC sanctions programme against Sudan was terminated on 12 October 2017). OFAC also prohibits virtually all business dealings with persons and entities identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

Upon a finding by the U.S. Secretary of the Treasury that a foreign financial institution has knowingly engaged in one or more of the activities described in sections 561.201 or 561.203 of the Iranian Financial Sanctions Regulations, 31 C.F.R. Part 561 (the "**IFSR**"), the Secretary, pursuant to the IFSR and consistent with the Secretary's authorities under U.S. law has the authority to place such financial institution on the Part 561 List, and impose certain prohibitions on the opening or maintaining in the United States of a correspondent account or a payable-through account for such foreign financial institution. After a financial institution is placed on the Part 561 List, U.S. financial institutions are prohibited from opening or maintaining a correspondent account or a payable-through account for the foreign financial institution(s). Bank of Kunlun has been placed on the Part 561 List. However, such placement on the Part 561 List will not create exposure for counterparties conducting transactions with financial institutions on the Part 561 List provided that such transactions have no connection to the United States or the U.S. financial system.

United Nations

The United Nations Security Council (the "**UNSC**") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

European Union

Under European Union sanction measures, there is no "blanket" ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person or not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures.

Australia

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services subject to United Nations sanctions.

HISTORY AND DEVELOPMENT

We commenced our business in September 1998 through our major operating subsidiary, Dalipal Pipe. Mr. Meng, Huabei Petroleum Huayuan Machinery Equipment Factory* (華北石油華源機械設備製造廠) ("**Huayuan Factory**") and 34 other individuals, who were all employees of the then Huayuan Factory, founded Dalipal Pipe. Huayuan Factory was established by a PRC oilfield company and then principally engaged in repair of oil equipment. All of the other individual founders were then employees of Huayuan Factory and six of such individual founders (Mr. DL Chen, Mr. JX Xing, Mr. Chen Yuchuan, Mr. Li Jinlong, Ms. YH Zhu and Mr. Cui Jiaxun) are Polaris Shareholders. Mr. Meng is the chairman of our Board, an executive Director and a Controlling Shareholder. The founders founded Dalipal Pipe with their own respective financial resources. Please refer to the section headed "Directors and Senior Management — Board of Directors — Executive Directors" for further details on Mr. Meng. Please refer to the section headed "Business" for further details of our business operation.

Our business and corporate milestones are set out below:

Milestones

The following events are the key business and corporate milestones of our Group since our establishment:

Year	Business development
September 1998	Our Group was established
March 1999	We launched our first production line for casing, the major product of OCTG
August 1999	Our quality system in respect of oil pipes has been accredited with GB/T19002–1994/ISO9002: 1994
November 1999	We started to sell our products to oilfields located in Hebei Province
February 2001	We started to sell our products to oilfields located in Daqing City
October 2001	We passed the dual certification of API Specification Q1 and API Specification 5CT, allowing us to manufacture products in accordance with such standards
Between May 2001 and December 2003	We started to sell our products to oilfields located in Liaoning Province, Shaanxi Province, Qinghai Province, Xinjiang Uygur Autonomous Region and Tianjin City
July 2003	We started to sell our products to oilfields in Henan Province

Year	Business development
March 2005	We started to export our products to overseas market
January 2006	We were recognised as High Tech Enterprise (高新技術企業) for the first time
February 2008	Our health, safety and environment system has been accredited with GB/T24001–2004/ISO14001:2004 (in respect of manufacturing of OCTG) and GB/T28001–2001 (in respect of production and manufacturing of OCTG and seamless steel pipe)
June 2009	We started to build the production line of pipe billets in our Bohai New District Factory
December 2011	We have been accredited with TS certification for the manufacture of various types of pressure seamless steel pipe
March 2012	We commenced production at our Bohai New District Factory
August 2014	We started our vertically integrated supply chain business model by also manufacturing of other oil pipes
December 2014	Our in-house testing laboratory has been accredited with ISO/IEC 17025:2005 General Requirements for the Competence of Testing and Calibration Laboratories (CNAS-CL01 Accreditation Criteria for the Competence of Testing and Calibration Laboratories) by CNAS
End of 2016	We achieved full integration of our business model covering production of pipe billets, other oil pipes and OCTG
September 2017	Our R&D institute, namely Hebei Oil Pipe Engineering Research Institute* (河北省石油專用管工程技術研究中心) located in Cangzhou City, Hebei Province, the PRC was certified as Grade A of R&D Institutions of Industrial Enterprises with Designated Size in Hebei Province* (河北省規模以上工業企業研發機構A級)

Year	Business development
November 2017	We started to implement our plan to move our factories and warehouse (i.e. Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse) in the urban area of Cangzhou to Bohai New District Factory and began our Phase One Expansion in Bohai New District Factory for further business expansion. Please refer to the section headed "Business — Production — Production Expansion Plan" for more details of the expansion of our business
June 2018	Our intellectual property management system in respect of R&D, manufacture and sales of OCTG, seamless pipes and pipe billets has been accredited with GB/T29490–2013
April 2019	Our measurement management system in respect of product quality, operation management, energy saving and environmental monitoring has been accredited with GB/T19022–2003/ISO 10012:2003

ESTABLISHMENT AND MAJOR CHANGES CONCERNING OUR COMPANY AND THE MAJOR OPERATING SUBSIDIARY OF OUR COMPANY

During the Track Record Period, the principal business of our Group had been operated under a major operating subsidiary of our Company, Dalipal Pipe, which made material contribution to our revenue during the Track Record Period. The establishment and major changes concerning our Company and Dalipal Pipe are set out below.

Incorporation and change in issued share capital of our Company

Our Company was incorporated on 28 August 2018 as part of the Reorganisation. Upon incorporation, one subscriber Share was issued at par by our Company to a subscriber who transferred such Share to Rosy Astral at par on the same day. On 22 September 2018, an aggregate of 969,999 Shares were allotted and issued, credited as fully-paid, at par by our Company, of which 588,627 Shares were issued to Rosy Astral, 348,185 Shares were issued to Polaris Swift and 33,187 Shares were issued to Glorious Year. As a result, the entire issued share capital of our Company was owned as to approximately 60.7% by Rosy Astral, 35.9% by Polaris Swift and 3.4% by Glorious Year.

On 9 January 2019, an aggregate of 30,000 Shares were allotted and issued, credited as fully-paid to Mr. Yau, the pre-IPO investor. Please refer to the paragraph headed "Pre-IPO Investment" in this section for further details. As a result, the entire issued share capital of our Company was owned as to approximately 58.9% by Rosy Astral, 34.8% by Polaris Swift, 3.3% by Glorious Year and 3.0% by Mr. Yau.

Establishment and major changes concerning Dalipal Pipe, the major operating subsidiary of our Company, which is established in the PRC

(a) Establishment of Dalipal Pipe

Dalipal Pipe is the major operating subsidiary of our Company that engages in the manufacture and sales of OCTG, other oil pipes and pipe billets. It was established in PRC as a limited liability company on 18 September 1998 and has commenced business since then. At the time of establishment, Dalipal Pipe's registered capital amounted to RMB2.48 million which had been fully paid up and was owned as to approximately 8.1% by Mr. Meng, 40.3% by Huayuan Factory and 51.6% by 34 other individuals who were the then employees of Huayuan Factory, and each of Huayuan Factory and the other 34 individual shareholders were Independent Third Parties.

Since May 1999 and up to July 2007, pursuant to various transfers of equity interest and increase in registered capital of Dalipal Pipe, Mr. Meng was either the largest or second largest shareholder of Dalipal Pipe and has held over 27.6% of the equity interest in Dalipal Pipe throughout this period. Mr. Meng ceased to hold equity interest in Dalipal Pipe directly since August 2010 when he transferred all his then remaining entire equity interest in Dalipal Pipe to Dalipal Group, and he held equity interest in Dalipal Pipe indirectly via Dalipal Group. Mr. Meng had all along been the single largest shareholder of Dalipal Group since its establishment and had, together with the equity interest in Dalipal Group held by his son (i.e. Mr. YX Meng), control over 50.0% of the equity interest in Dalipal Group since April 2017.

Furthermore, Huayuan Factory ceased (i) to hold more than 30% of the equity interest in Dalipal Pipe since May 1999; and (ii) to be a shareholder of Dalipal Pipe since December 2002 when it transferred all its entire equity interest in Dalipal Pipe to the labour union of Dalipal Pipe. The labour union of Dalipal Pipe ceased to be a shareholder of Dalipal Pipe since April 2007 when it transferred all its entire equity interest in Dalipal Pipe to certain of the then employees of Dalipal Pipe.

(b) Transfer of shares to Dalipal Group

In July 2007, Mr. Meng, Mr. DL Chen, Ms. YH Zhu, Mr. SX Hou and one other individual shareholder, who was an Independent Third Party, transferred an aggregate of 51.0% of the equity interest in Dalipal Pipe to Dalipal Group for cash at an aggregate consideration of RMB51.0 million. Such consideration was determined between the parties on an arm's length basis with reference to the amount of the registered capital then owned by each of these transferors. A new business licence was issued by Cangzhou Administration for Industry and Commerce Bureau* (滄州市工商行政管理局) ("**Cangzhou AIC**") on 12 July 2007 and the above transfers were completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	51.0%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. Meng	6.7%	Executive Director and chairman of our Board and a Controlling Shareholder
3.	Ms. Xu	2.3%	Executive Director and a Polaris Shareholder
4.	Mr. XY Guo	4.5%	Each an existing employee of Dalipal Pipe and a Polaris Shareholder
5.	Ms. CP Ni	4.1%	
6.	Mr. XZ Song	3.9%	Each a Polaris Shareholder
7.	Mr. JX Xing	3.1%	
8.	Mr. Jia	3.9%	A minority shareholder of our Company and an Independent Third Party
9.	Three other Independent Third Parties	20.5%	Independent Third Parties and then employees of Dalipal Pipe
	Total:	100.0%	

Dalipal Group then primarily acted as an investment holding vehicle, which was established by certain existing and former employees of Dalipal Pipe, to hold their interests in Dalipal Pipe.

(c) Subscription of registered capital by, and transfer of certain equity interest in Dalipal Pipe to, DLP Investment

DLP Investment is a limited company incorporated in Hong Kong and a former institutional investor of Dalipal Pipe and an Independent Third Party.

In July 2007, DLP Investment entered into a capital increase and equity transfer agreement with Dalipal Pipe, Mr. Meng and Mr. Li Wenzhong (李文忠), pursuant to which DLP Investment agreed to (i) subscribe for the increase in the registered capital of Dalipal Pipe of RMB24.96 million by way of additional cash contribution at a consideration of RMB154,137,800; and (ii) acquire from Mr. Li Wenzhong, a then employee of Dalipal Pipe and an Independent Third Party, approximately 12.5% equity interest in Dalipal Pipe for cash at a consideration of RMB110,552,200. Such consideration was determined between the parties on an arm's length basis with reference to the agreed earning multiple of the profit before tax of Dalipal Pipe for the year ended 31 December 2006. A new business licence was issued by Hebei Administration for Industry and Commerce Bureau* (河北省工商行政管理局) ("**Hebei AIC**") on 12 November 2007 and the above capital increase and equity interest transfer were completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	40.8%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. Meng	5.4%	Executive Director, chairman of our Board and a Controlling Shareholder
3.	Ms. Xu	1.9%	Executive Director and a Polaris Shareholder
4.	Mr. XY Guo	3.5%	Each an existing employee of Dalipal Pipe and a Polaris Shareholder
5.	Ms. CP Ni	3.3%	
6.	Mr. XZ Song	3.1%	Each a Polaris Shareholder
7.	Mr. JX Xing	2.5%	
8.	Mr. Jia	3.1%	A minority shareholder of our Company and an Independent Third Party
9.	Two other Independent Third Parties	6.4%	Independent Third Parties and then employees of Dalipal Pipe
10.	DLP Investment	30.0%	Independent Third Party
	Total:	100.0%	

(d) Acquisition of Dalipal Equipment Manufacturing from Dalipal Group and subsequent merger and consolidation of Dalipal Equipment Manufacturing with Dalipal Pipe

In August 2010, Dalipal Pipe agreed to acquire from Dalipal Group its entire equity interest in Dalipal Equipment Manufacturing, which then principally engaged in the production of pipe billets, at a consideration of RMB135.0 million. Such consideration was determined between the parties on arm's length basis with reference to the net asset value of Dalipal Equipment Manufacturing as at 31 December 2009 appraised by an independent valuer. The consideration was satisfied by the increase in registered capital of Dalipal Pipe by RMB25.9 million and all of such increase in registered capital of Dalipal Pipe was subscribed for by Dalipal Group by transferring its entire equity interest in Dalipal Equipment Manufacturing to Dalipal Pipe. A new business licence was issued by Cangzhou AIC on 21 September 2010 and the above increase in registered capital was completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	66.9%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. XY Guo	3.0%	Each an existing employee of Dalipal Pipe and a Polaris Shareholder
3.	Ms. CP Ni	2.7%	
4.	Mr. Jia	2.6%	A minority shareholder of our Company and an Independent Third Party
5.	DLP Investment	24.8%	Independent Third Party
	Total:	100.0%	

In July 2011, the board of directors of Dalipal Pipe has resolved to merge and consolidate Dalipal Equipment Manufacturing with Dalipal Pipe. The entire assets, rights and obligations of Dalipal Equipment Manufacturing had been inherited by Dalipal Pipe. Such merger and consolidation were approved by Cangzhou Bureau of Commerce* (滄州市商務局) on 13 July 2011. A new business licence was issued by Cangzhou AIC on 14 October 2011 and the above merger and consolidation became effective as at such date. Following such merger and consolidation, Dalipal Equipment Manufacturing dissolved in May 2012.

(e) Subscription of registered capital by Hebei Litonglian

In August 2014, Hebei Litonglian entered into a capital increase agreement with Dalipal Pipe pursuant to which Hebei Litonglian agreed to subscribe for an aggregate of 0.1% equity interest in Dalipal Pipe at a consideration of RMB1,001,130. Such consideration was determined between the parties on arm's length basis with reference to the net asset value of the assets and liabilities of Hebei Litonglian to be transferred to Dalipal Pipe. The consideration for the increase in registered capital of Dalipal Pipe was satisfied by Hebei Litonglian by transferring its land use rights in certain land, together with related assets in the sum of approximately RMB276.8 million and liabilities in the sum of approximately RMB275.8 million to Dalipal Pipe. A new business licence was issued by Cangzhou AIC on 31 December 2014 and the above increase in registered capital was completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	66.8%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. XY Guo	3.0%	Each an existing employee of Dalipal Pipe and a Polaris Shareholder
3.	Ms. CP Ni	2.7%	
4.	Mr. Jia	2.6%	A minority shareholder of our Company and an Independent Third Party
5.	DLP Investment	24.8%	Independent Third Party
6.	Hebei Litonglian	0.1%	Independent Third Party
	Total:	100.0%	

Hebei Litonglian then primarily engaged in the manufacture of other oil pipes and the land use rights and related assets which were transferred by Hebei Litonglian to Dalipal Pipe constitute our Gaoxin District Factory. Since then, our Group expanded our business to the manufacture and sale of other oil pipes.

(f) Transfer of equity interest by DLP Investment to Dalipal Group

In December 2017, Dalipal Group agreed to acquire from DLP Investment its entire equity interest, representing approximately 24.8% equity interest in Dalipal Pipe for cash at a consideration of RMB200.0 million. Such consideration was determined between the parties on an arm's length basis with reference to the fair value of Dalipal Pipe as at 31 May 2017 appraised by an independent valuer. A new business licence was issued by Cangzhou Administrative Examination and Approval Bureau* (滄州市行政審批局) ("**Cangzhou Approval Bureau**") on 9 January 2018 and the above transfer was completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	91.6%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. XY Guo	3.0%	Each an existing employee of Dalipal Pipe and a Polaris Shareholder
3.	Ms. CP Ni	2.7%	
4.	Mr. Jia	2.6%	A minority shareholder of our Company and an Independent Third Party
5.	Hebei Litonglian	0.1%	Independent Third Party
	Total:	100.0%	

(g) Transfer of equity interest by Ms. CP Ni and Mr. XY Guo

In May 2018, Dalipal Group agreed to acquire from (i) Ms. CP Ni her entire equity interest, representing approximately 2.7% equity interest in Dalipal Pipe for cash at a consideration of RMB4,096,000; and (ii) Mr. XY Guo certain of his equity interest, representing approximately 2.1% equity interest in Dalipal Pipe for cash at a consideration of RMB3,196,600. Furthermore, Mr. Jia agreed to acquire from Mr. XY Guo his approximately 0.85% equity interest in Dalipal Pipe at RMB1,281,400. Such acquisition was financed by Mr. Meng, who held such equity interest on trust for Mr. Jia pending repayment by Mr. Jia. Please refer to the paragraph headed "The Reorganisation — Corporate Restructuring — (5) Transfer of registered capital from Mr. Meng back to Mr. Jia" for further details. All of the consideration mentioned above were determined between the parties on an arm's length basis with reference to the amount of registered share capital then owned by each of these transferors. A new business licence was issued by Cangzhou Approval Bureau on 1 June 2018 and the above transfers were completed as at such date. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	96.5%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. Meng *(Note)*	0.8%	Executive Director and chairman of our Board and a Controlling Shareholder
3.	Mr. Jia	2.6%	A minority shareholder of our Company and an Independent Third Party
4.	Hebei Litonglian	0.1%	Independent Third Party
	Total:	100.0%	

Note: Mr. Meng held such equity interest in Dalipal Pipe on trust for Mr. Jia.

(h) Transfer of equity interest by Hebei Litonglian to Mr. Peng

In June 2018, Mr. Peng agreed to acquire from Hebei Litonglian its entire equity interest, representing approximately 0.1% equity interest in Dalipal Pipe for cash at a consideration of RMB151,000. Such consideration was determined between the parties on an arm's length basis with reference to the amount of the registered share capital then owned by Hebei Litonglian. The above transfer was completed on 11 June 2018. As such, Dalipal Pipe was owned by the following shareholders:

	Name of shareholder	Approximate percentage of equity interest held	Relationship with our Group
1.	Dalipal Group	96.5%	Minority shareholder of Shengjie Pipe and a connected person of our Company
2.	Mr. Meng *(Note)*	0.8%	Executive Director and chairman of our Board and a Controlling Shareholder
3.	Mr. Jia	2.6%	A minority shareholder of our Company and an Independent Third Party
4.	Mr. Peng	0.1%	Independent Third Party
	Total:	100.0%	

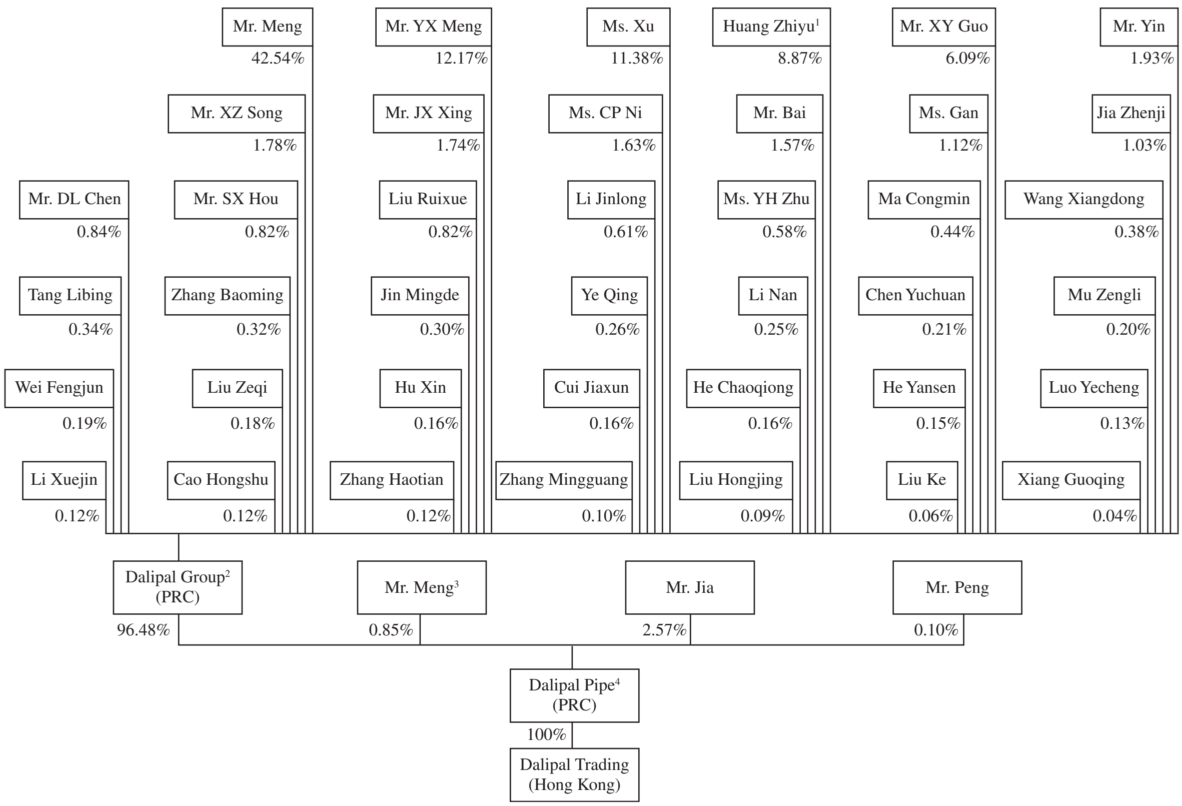
Note: Mr. Meng held such equity interest in Dalipal Pipe on trust for Mr. Jia.

(i) Becoming an indirect non-wholly owned subsidiary of our Company

As part of our Reorganisation, pursuant to an increase in registered capital and various transfers of equity interest, as at the Latest Practicable Date, Dalipal Pipe was an indirect non-wholly owned subsidiary of our Company, and its entire equity interest was owned by Xuanxiang Pipe. Please refer to the paragraph headed "The Reorganisation — Corporate Restructuring" in this section for further details.

THE REORGANISATION

Immediately prior to the Reorganisation, the shareholding structure of our Group was as follows:



Notes:

1. Out of these approximately 8.87% equity interest in Dalipal Group held by Mr. Huang Zhiyu, approximately 8.127% equity interest in Dalipal Group was held on trust for Mr. Meng. Such trust arrangement ceased on 15 December 2018 and approximately 8.127% equity interest in Dalipal Group was transferred from Mr. Huang back to Mr. Meng.

2. All individuals shown in the above chart are PRC residents.

3. Mr. Meng held such equity interest in Dalipal Pipe on trust for Mr. Jia.

4. Dalipal Pipe has two branch offices in the PRC, namely Dalipal Bohai Branch and Dalipal Gaoxin Branch.

5. All percentages shown in this chart are approximate figures.

Corporate restructuring

To rationalise our Group's structure in preparation for the Listing, our Group underwent various corporate restructuring as more particularly described as follows:

(1) Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 28 August 2018 and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 April 2019. Since 22 September 2018, our Company was owned as to approximately 60.7% by Rosy Astral, 35.9% by Polaris Swift and 3.4% by Glorious Year. Please refer to the above paragraph headed "Establishment and Major Changes Concerning Our Company and the Major Operating Subsidiary of Our Company — Incorporation and change in issued share capital of our Company" in this section for information on the change in issued share capital of our Company.

(2) Incorporation of Agile Rise

Agile Rise was incorporated on 26 April 2018 in the BVI as a limited liability company with 50,000 authorised shares of US$1 each. On 5 September 2018, one ordinary share of US$1 was allotted and issued, credited as fully paid, to our Company, as a result of which the entire issued share capital of Agile Rise was wholly owned by our Company.

(3) Incorporation of Dalipal Shengjie

Dalipal Shengjie was incorporated on 17 September 2018 in Hong Kong as a limited liability company. At the time of incorporation, Agile Rise subscribed for one ordinary share in Dalipal Shengjie at HK$1, as a result of which the entire issued share capital of Dalipal Shengjie was wholly owned by Agile Rise.

(4) Incorporation of Dalipal HK

Dalipal HK was incorporated on 19 September 2018 in Hong Kong as a limited liability company. At the time of incorporation, an initial subscriber subscribed for one ordinary share in Dalipal HK at HK$1. On 21 September 2018, the initial subscriber transferred one ordinary share in Dalipal HK to Agile Rise at a consideration of HK$1, as a result of which the entire issued share capital of Dalipal HK was wholly owned by Agile Rise.

(5) Transfer of registered capital from Mr. Meng back to Mr. Jia

In May 2018, Mr. Jia acquired from Mr. XY Guo his approximately 0.85% equity interest in Dalipal Pipe at RMB1,281,400 (which represented the amount of registered capital in Dalipal Pipe so transferred). Such acquisition was financed by Mr. Meng, who held such equity interest on trust for Mr. Jia pending repayment by Mr. Jia. On 25 August 2018, at the direction of Mr. Jia, Mr. Meng transferred the approximately 0.85% equity interest in Dalipal Pipe back to Mr. Jia at RMB1,281,400, being the amount owed by Mr. Jia to Mr. Meng, and the trust arrangement ceased. Approval was granted by Cangzhou Approval Bureau on 21 September 2018 and the above transfer was completed as at such date.

(6) Increase in registered capital of, and transfer of certain equity interest in, Dalipal Pipe and acquisition of the entire equity interest in Dalipal Pipe by Dalipal Group

On 22 September 2018, Mulberry (an investment holding company wholly owned by Mr. Yau), as investor entered into a capital increase and equity transfer agreement with Dalipal Group, Mr. Jia, Mr. Peng and Dalipal Pipe, pursuant to which Mulberry agreed to (i) subscribe for registered capital of Dalipal Pipe of RMB4,514,733, representing approximately 2.9% of the enlarged equity interest of Dalipal Pipe, by way of additional cash contribution at a consideration of RMB21,902,168; and (ii) acquire from Mr. Peng his approximately 0.1% equity interest in Dalipal Pipe for cash at a consideration of RMB732,535. Such considerations were determined between the parties on an arm's length basis with reference to the fair value of Dalipal Pipe as at 31 August 2018 as appraised by an independent valuer. A new business licence was issued by Cangzhou Market Supervision Bureau* (滄州市市場監督管理局) ("**Cangzhou MSB**") on 29 September 2018 and the above increase in registered capital and transfer were completed as at such date. As a result, Dalipal Pipe was converted into a sino-foreign equity joint venture company and was owned as to approximately 93.7% by Dalipal Group, 3.3% by Mr. Jia and 3.0% by Mulberry.

On 27 October 2018, Dalipal Group, Dalipal Pipe, Mulberry, Mr. Peng and Mr. Jia entered into an equity transfer agreement, pursuant to which Dalipal Group agreed to (i) acquire from Mulberry its entire equity interest in Dalipal Pipe (representing approximately 3.0% of all the equity interest of Dalipal Pipe) by taking up the payment obligations of Mulberry for subscription of registered capital of Dalipal Pipe and the consideration payable to Mr. Peng as set out above; and (ii) acquire from Mr. Jia his entire equity interest in Dalipal Pipe (representing approximately 3.3% of all the equity interest of Dalipal Pipe) at a consideration of RMB25,039,100. Such consideration was determined between the parties on an arm's length basis with reference to, among others, the fair value of Dalipal Pipe as at 31 August 2018. The payment for the increase in registered capital of Dalipal Pipe by Dalipal Group was settled on 1 November 2018. The consideration for the acquisition of (i) Mr. Peng's entire equity interest in Dalipal Pipe was fully settled on 5 December 2018; and (ii) Mr. Jia's entire equity interest in Dalipal Pipe was fully settled on 15 January 2019. A new business licence was issued by Cangzhou MSB on 1 November 2018 and the above transfers were completed as at such date. As a result, Dalipal Pipe was converted into a limited liability company and was wholly owned by Dalipal Group.

(7) Establishment of Dalipal Industrial

Dalipal Industrial was established by Dalipal HK as a wholly foreign owned enterprise under the laws of the PRC on 14 November 2018, with an initial registered capital of RMB10.0 million. It is wholly owned by Dalipal HK.

(8) Establishment of Xuanxiang Pipe

Xuanxiang Pipe was jointly established by Dalipal Group and Orbital (an investment holding company wholly owned by Mr. Yau) as a sino-foreign equity joint venture company under the laws of the PRC on 14 November 2018 with an initial registered capital of RMB200.0 million. At the time of establishment, RMB194.0 million registered capital in Xuanxiang Pipe (representing 97.0% of the entire registered capital of Xuanxiang Pipe) was contributed for by Dalipal Group by transferring its entire equity interest in Dalipal Pipe to Xuanxiang Pipe, and RMB6.0 million registered capital in Xuanxiang Pipe (representing 3.0% of the entire registered capital of Xuanxiang Pipe) was contributed by Orbital by way of cash contribution. The transfer of the entire equity interest in Dalipal Pipe to Xuanxiang Pipe was completed on 26 November 2018. As a result, Dalipal Pipe became wholly owned by Xuanxiang Pipe.

(9) Establishment of Shengjie Pipe

Shengjie Pipe was established by Dalipal Industrial as a limited liability company established under the laws of the PRC on 16 November 2018 with an initial registered capital of RMB10.0 million. It was wholly owned by Dalipal Industrial as at the date of its establishment.

(10) Increase in registered capital of Shengjie Pipe

On 19 November 2018, Dalipal Industrial, Shengjie Pipe and Dalipal Group entered into a capital increase agreement, pursuant to which Dalipal Group agreed to subscribe for registered capital of Shengjie Pipe of RMB101,000 (representing approximately 1.0% of the enlarged registered capital of Shengjie Pipe). Such amount of registered capital of Shengjie Pipe was contributed by Dalipal Group by transferring its entire equity interest in Xuanxiang Pipe (representing 97.0% of the equity interest of Xuanxiang Pipe) to Shengjie Pipe. A new business licence was issued by Cangzhou Bohai New District Administrative Examination and Approval Bureau* (滄州渤海新區行政審批局) on 27 November 2018 and the above increase in registered capital was completed as at such date. As a result, (i) Shengjie Pipe was owned as to approximately 99.0% by Dalipal Industrial and 1.0% by Dalipal Group. The transfer of the 97.0% equity interest in Xuanxiang Pipe to Shengjie Pipe was completed on 4 December 2018. As a result, Xuanxiang Pipe was owned as to 97.0% by Shengjie Pipe and as to 3.0% by Orbital.

(11) Transfer of 3% equity interest in Xuanxiang Pipe to Complete Glory

On 15 December 2018, Complete Glory (then wholly owned by Beauty Bright which in turn was wholly owned by Mr. Yau), Xuanxiang Pipe and Orbital (another investment holding company wholly owned by Mr. Yau) entered into an equity transfer agreement, pursuant to which Orbital agreed to transfer its entire equity interest in Xuanxiang Pipe (representing 3.0% of the entire registered capital of Xuanxiang Pipe) to Complete Glory for cash at a consideration of RMB6.0 million. Such transfer was made at our request so that Mr. Yau's investment in Xuanxiang Pipe would be held by newly incorporated investment holding vehicle pending transfer thereof to our Company as referred to in paragraph (12) below. Such consideration was determined between the parties on an arm's length basis with reference to the registered capital of Xuanxiang Pipe then owned by Orbital. The consideration for the transfer was settled on 15 December 2018. The relevant filings with Cangzhou Xinhua District Bureau of Commerce* (滄州市新華區商務局) were completed on 18 December 2018 and the above transfer was completed as at such date. As a result, Xuanxiang Pipe was owned as to 97.0% by Shengjie Pipe and as to 3.0% by Complete Glory.

(12) Subscription of Shares by Mr. Yau

On 9 January 2019, Mr. Yau, the pre-IPO investor, agreed to subscribe for 30,000 Shares (representing 3.0% of the enlarged issued share capital of our Company) at a consideration of RMB22,634,703. The consideration was determined with reference to the fair value of Dalipal Pipe as at 31 August 2018 as appraised by an independent valuer. The consideration was satisfied (1) as to RMB16,634,703 by cash; and (2) as to RMB6.0 million by the transfer of the entire issued share capital in Beauty Bright, and the assignment of the then shareholder's loan advanced to Beauty Bright, to our Company. Completion of such subscription took place on the same date and as a result, (1) our Company became owned as to approximately 58.9% by Rosy Astral, 34.8% by Polaris Swift, 3.3% by Glorious Year and 3.0% by Mr. Yau; and (2) Beauty Bright became a direct wholly owned subsidiary of our Company. Please also refer to the paragraph headed "Pre-IPO Investment" in this section for further details on the investment in our Company by Mr. Yau.

Upon completion of the Reorganisation, our Company became the holding company of the members of our Group.

As advised by our PRC Legal Advisers, we have obtained and completed all the requisite approvals, registrations and/or filings formalities in all material aspects from the relevant PRC government authorities in respect of the Reorganisation, and the Reorganisation to the extent that PRC laws are applicable, has complied with the applicable laws and regulations in the PRC.

Circular 37

According to Circular 37 as modified by Circular 13, PRC residents, including PRC individuals, are required to file foreign exchange registration with designated banks before it injects assets or equity interests in an offshore special purpose vehicle which is directly established or indirectly controlled by the PRC residents for the purpose of investment and financing. In addition, in the event that any change of basic information (including PRC resident shareholders, name and operation term) or any change involving material events (including increase or decrease in investment amount, share transfer or exchange, or merger or division) arises in respect of the registered offshore special purpose vehicle, the foreign exchange registration shall be updated. Each of Mr. Meng, Mr. YX Meng, Mr. Jia and each of the Polaris Shareholders has effected registration as required under Circular 37 on 12 October 2018.

M&A Rules

According to Article 11 of the Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) ("**M&A Rules**"), where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required. As advised by our PRC Legal Advisers, Dalipal Pipe was already a company owned by a sino-foreign equity joint venture company prior to its indirect acquisition by our Company which was completed on 4 December 2018. Accordingly, the Reorganisation is not subject to Article 11 of the M&A Rules, and it is not necessary for us to obtain approval from MOFCOM for the Reorganisation nor from the CSRC for the Listing and trading of our Shares on the Stock Exchange.

PRE-IPO INVESTMENT

For the long-term business development of our Group, we entered into the pre-IPO investment as set out below.

Subscription of Shares

On 9 January 2019, (i) Mr. Yau as investor; and (ii) our Company entered into a subscription agreement pursuant to which Mr. Yau agreed to subscribe for 30,000 Shares (representing 3.0% of the enlarged issued share capital of our Company). As a result, Mr. Yau became a Shareholder.

A summary of the pre-IPO investment made by Mr. Yau are set out below:

Date of subscription of Shares	9 January 2019
Consideration paid for the subscription of Shares	RMB22,634,703, of which (1) RMB16,634,703 was settled by cash; and (2) RMB6.0 million was settled by Mr. Yau transferring the entire issued share capital in Beauty Bright, and assigning the shareholder's loan of RMB6.0 million advanced to Beauty Bright by Mr. Yau to our Company
Basis of consideration	Such consideration was determined with reference to the fair value of Dalipal Pipe as at 31 August 2018 as appraised by an independent valuer and the then outstanding unsecured interest free shareholder's loan advanced to Beauty Bright by Mr. Yau.
Date on which the consideration was fully and irrevocably settled	10 January 2019
Number of Shares and approximate percentage of shareholding in our Company immediately upon Listing *(Note 1)*	36,000,000 Shares, 2.4%
Investment cost per Share *(Note 2)*	Approximately HK$0.73 (equivalent to approximately RMB0.63)
Discount to the mid-point of the indicative Offer Price range *(Note 3)*	Approximately 57.3%

Use of proceeds	The proceeds from the pre-IPO investment shall be used to fund the capital expenditures and working capital of our Group. As at the Latest Practicable Date, approximately 85.9% of such proceeds had been utilised.
Strategic benefits to our Group	Widen our Group's capital base.
Lock-up period and public float	The Shares held by Mr. Yau as of the Listing Date will not be subject to lock-up. In view of (i) Mr. Yau is an Independent Third Party; and (ii) Mr. Yau will not become a substantial Shareholder upon Listing, the Shares held by Mr. Yau immediately after Listing will be considered as part of the public float after Listing for the purpose of Rule 8.08 of the Listing Rules.

Notes:

1. Based on the number of Shares held by Mr. Yau and the total number of Shares in issue upon completion of the Capitalisation Issue and the Global Offering, taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

2. For the purpose of this calculation, the exchange rate for RMB/HK$ was based on RMB1 to HK$1.1555.

3. Based on the Offer Price of HK$1.71 per Share (being the mid-point of the indicative Offer Price range).

Special rights

No special rights were granted to Mr. Yau.

Information about Mr. Yau

Mr. Yau is a strategic investor and has been operating energy business in the PRC for over 15 years. Currently, he is a director of a company, which principally engaged in the business of hydroelectric power generation, in the PRC. He has also invested in a company listed on the Main Board of the Stock Exchange and certain funds which invested in energy sectors.

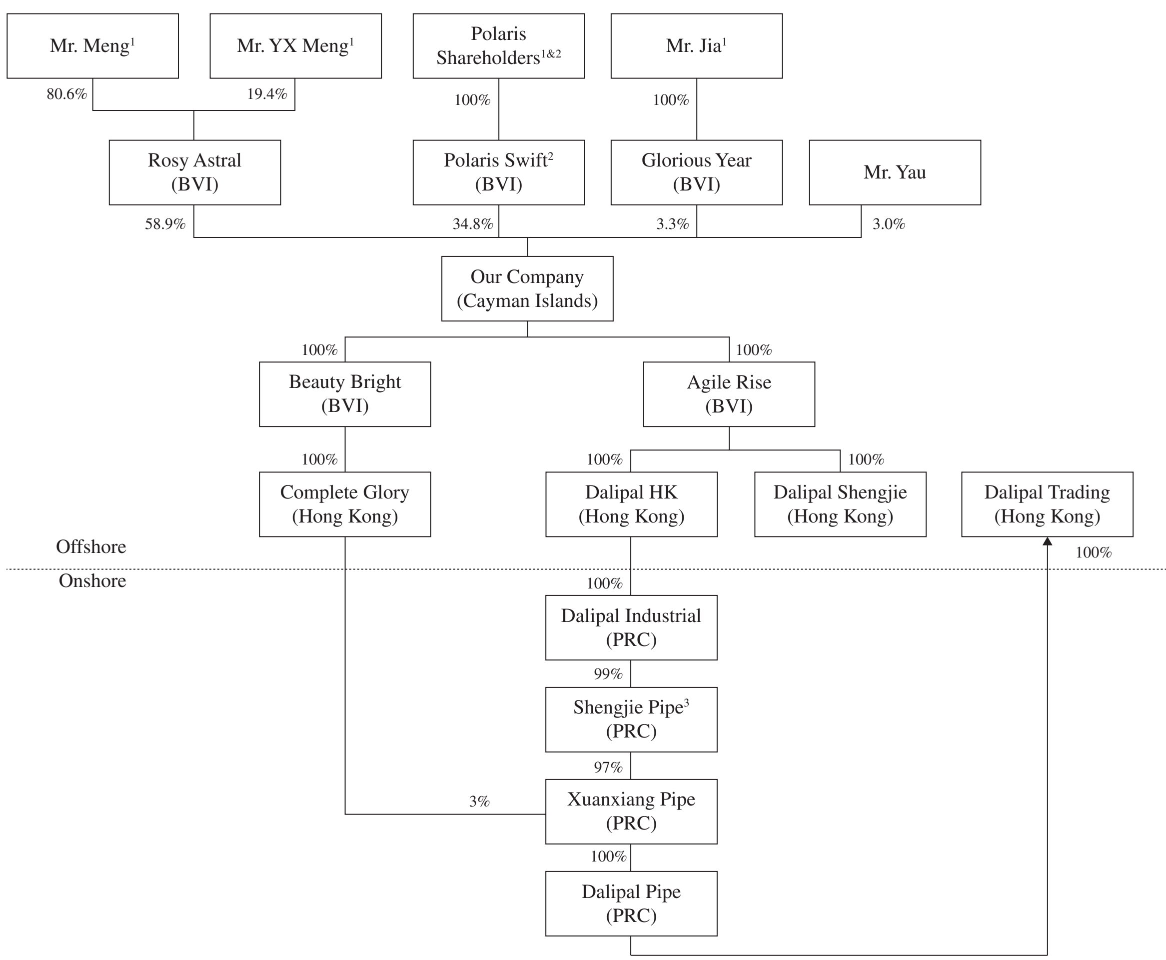
With Mr. Yau's ample experience in the energy market, and our long-standing track record and well-established reputation in the industry, he invested in our Company as he believed that there is great potential in OCTG and other oil pipes market and that the investment in our Group would be worthwhile. Mr. Yau does not have any relationship with our Group or any connected person of our Company, and is an Independent Third Party.

Sole Sponsor's confirmation

Since the consideration for the pre-IPO investments was fully settled by Mr. Yau more than 28 clear days before the date of submission of the initial listing application by our Company and no special rights were granted to Mr. Yau in respect to his investment, the Sole Sponsor is of the view that the pre-IPO investment by Mr. Yau is in compliance with the Interim Guidance on Pre-IPO Investments (HKEx-GL29–12) and the Guidance on Pre-IPO Investments (HKEx-GL43–12).

CORPORATE STRUCTURE

The following chart sets out the shareholding structure of our Group immediately before completion of the Capitalisation Issue and the Global Offering:



Notes:

1. Each of Mr. Meng, Mr. YX Meng, Mr. Jia and each of the Polaris Shareholders is a PRC resident.

2. Polaris Swift is a company whose shareholders are the Polaris Shareholders. Their respective shareholdings in Polaris Swift are as follows:

	Name of Polaris Shareholders	Approximate percentage of shares in Polaris Swift
1.	Ms. Xu	30.605%
2.	Huang Zhiyu (黃志宇)	1.990%
3.	Mr. XY Guo	16.397%
4.	Mr. Yin	5.185%
5.	Mr. XZ Song	4.796%
6.	Mr. JX Xing	4.679%
7.	Ms. CP Ni	4.395%
8.	Mr. Bai	4.224%
9.	Ms. Gan	3.027%
10.	Jia Zhenji (賈鎮基)	2.760%
11.	Mr. DL Chen	2.258%
12.	Mr. SX Hou	2.201%
13.	Liu Ruixue (劉瑞學)	2.214%
14.	Li Jinlong (李金龍)	1.628%
15.	Ms. YH Zhu	1.569%
16.	Ma Congmin (馬聰敏)	1.185%
17.	Wang Xiangdong (王向東)	1.023%
18.	Tang Libing (唐麗兵)	0.927%
19.	Zhang Baoming (張保明)	0.868%
20.	Jin Mingde (金明德)	0.813%
21.	Ye Qing (葉青)	0.700%
22.	Li Nan (李楠)	0.675%
23.	Chen Yuchuan (陳玉川)	0.571%
24.	Mu Zengli (穆增利)	0.546%
25.	Wei Fengjun (魏鋒軍)	0.513%
26.	Liu Zeqi (劉澤起)	0.475%
27.	Hu Xin (胡欣)	0.419%
28.	Cui Jiaxun (崔嘉詢)	0.442%
29.	He Chaoqiong (何朝瓊)	0.442%
30.	He Yansen (何燕森)	0.393%
31.	Luo Yecheng (羅葉成)	0.349%
32.	Li Xuejin (李學進)	0.323%
33.	Cao Hongshu (曹洪書)	0.323%
34.	Zhang Haotian (張浩天)	0.317%
35.	Zhang Mingguang (張明光)	0.271%
36.	Liu Hongjing (劉宏靖)	0.234%
37.	Liu Ke (劉珂)	0.161%
38.	Xiang Guoqing (項國慶)	0.101%
	Total:	100.0%

3. The remaining approximately 1.0% of the entire registered capital in Shengjie Pipe is owned by Dalipal Group.

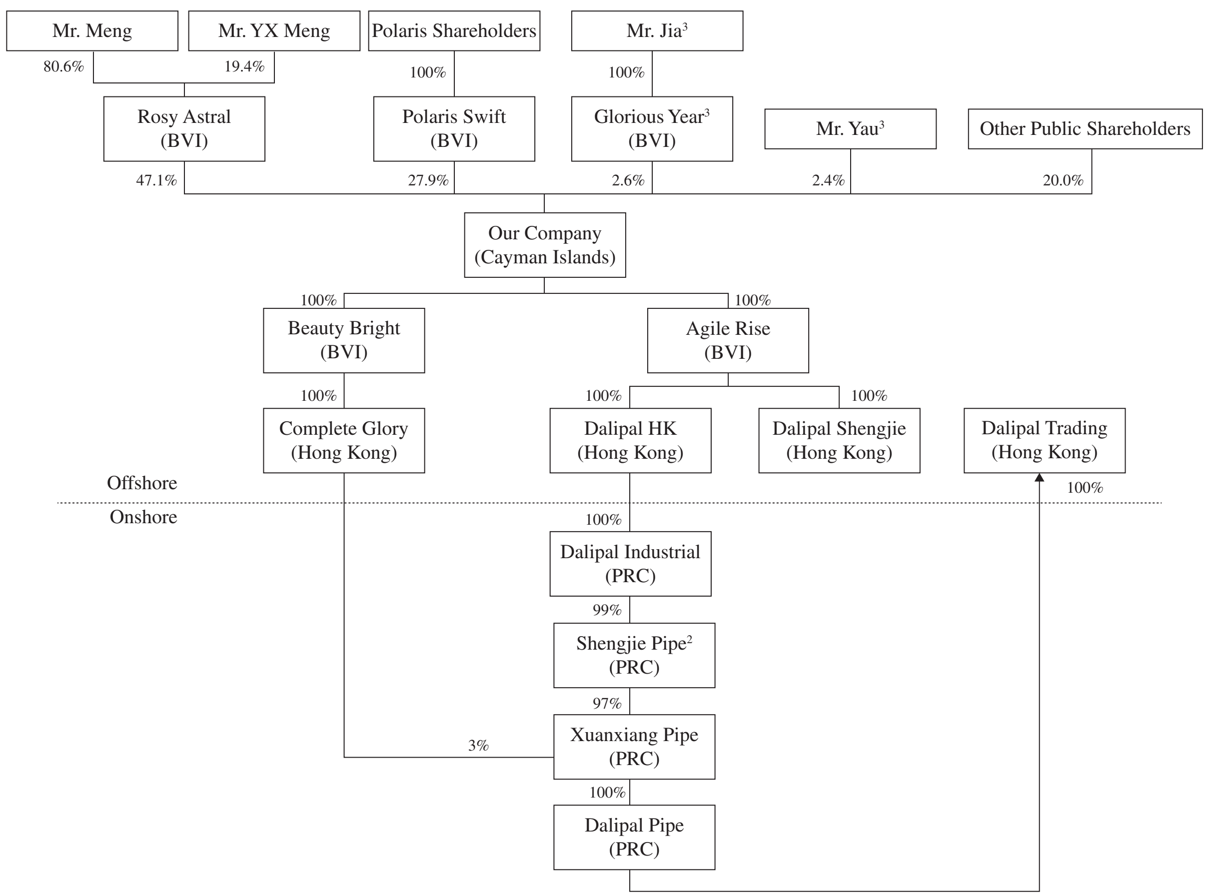
4. The following table sets out the brief details of our Company and the major operating subsidiaries of our Company as at the Latest Practicable Date:

	Name of Group companies	Date of Incorporation	Place of Incorporation	Principal activities
1.	Our Company	28 August 2018	Cayman Islands	Investment holding
2.	Dalipal Pipe	18 September 1998	The PRC	Manufacture and sales of OCTG, other oil pipes and pipe billets

5. Please refer to Note 1 in the Accountants' Report for further details of our subsidiaries.

6. All percentages shown in this chart are approximate figures.

The following chart sets out the shareholding and corporate structure of our Group immediately upon completion of the Capitalisation Issue and Global Offering (assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of options which were granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme):



Notes:

1. All percentages shown in this chart are approximate figures.

2. The remaining approximately 1.0% of the entire registered capital in Shengjie Pipe is owned by Dalipal Group.

3. The Shares held by each of Mr. Jia (through Glorious Year) and Mr. Yau will be considered as part of the public float after Listing for the purpose of Rule 8.08 of the Listing Rules.

OVERVIEW

We are an OCTG manufacturer focusing on the manufacture of casing. During the Track Record Period and up to the Latest Practicable Date, casing had been the only type of OCTG that we had sold. We are a leading OCTG manufacturer among private-owned manufacturers with an integrated business model, providing full range services covering the development, manufacture and sales of OCTG and other oil pipes primarily to oil companies, OCTG manufacturers and OCTG processing factories in the PRC, and securing stable and cost-efficient supply of our principal production material, i.e., pipe billets, by manufacturing them on our own. We are also capable of developing and manufacturing tubing, being another major product of OCTG. During the Track Record Period, we had also sold our surplus pipe billets to, amongst others, steel products, oil pipes and energy equipment manufacturers in the PRC after fulfilling our internal production needs. According to the CIC Report, we (i) ranked third among all of the OCTG manufacturers in the PRC in 2018 and we are the market leader among private-owned manufacturers in the supply of OCTG in the PRC in 2018 with approximately 9.6% market share based on our OCTG sales value in FY2018; and (ii) we ranked sixth among all of the OCTG manufacturers and second among private-owned manufacturers in the PRC with approximately 7.7% market share in terms of the overall OCTG markets based on our sales value of overall OCTG in FY2018.

OCTG mainly comprises oil pipes that are mainly used in oilfield drilling and completion procedures. Other oil pipes mainly comprises plain-end pipes which may be further processed into OCTG. The majority of the other oil pipes which we manufacture and sell is plain-end pipe.

We are headquartered in Cangzhou, Hebei Province, the PRC. With over 20 years of leadership under Mr. Meng, who is one of our founders, the chairman of our Board, executive Director and a Controlling Shareholder, we have developed from an OCTG processing factory to a full production chain of OCTG, other oil pipes and pipe billets manufacturer, capable of developing and manufacturing different specifications and models of OCTG, other oil pipes and pipe billets. We also export some of our OCTG and other oil pipes to customers overseas. We have gained sound market reputation manifested by the accreditations awarded to us in relation to quality and market acceptance of our products marketed under the brand name “Dalipal”.

We have attained leading market position by building capabilities in the development and manufacture of OCTG, other oil pipes, as well as pipe billets. With strong R&D capabilities, we develop OCTG based on the different needs of our customers. We believe such an integrated manufacturing model has enabled us to maximise our operational efficiency in catering for the different requirements of our customers, minimise our production costs and to have better control over our product quality. We believe that the quality and value-for-money of our products, our full production chain capabilities and short production lead time provide a unique value proposition for our customers, and further contribute to our ability to maintain our leading market position in the OCTG industry. Please refer to the paragraph headed “Production — Production Expansion Plan” in this section for more details of our Group’s production expansion plan.

Our success is also attributable to the long-term relationship we have built with, and the recognition by, our major customers, amongst which include members of one of the PRC Big-3 NOC. We have been recognised as approved vendor of such PRC Big-3 NOC since 2001 and for FY2016, FY2017, FY2018 and 6M2019, our sales to the members of such PRC Big-3 NOC accounted for approximately 70.3%, 55.5%, 52.0% and 62.5% of our revenue, respectively, and our sales of OCTG to members of such NOC accounted for approximately 88.3%, 87.6%, 84.2% and 87.1% of our total revenue attributable to the sales of OCTG. Each of such members of one of the PRC Big-3 NOC operates under independent management and is accordingly regarded by us as a distinctive and independent customer.

We have automated production facilities with designed annual production capacity of approximately 200,000 tonnes of OCTG, 250,000 tonnes of other oil pipes and 600,000 tonnes of pipe billets during the Track Record Period. Our production techniques developed in-house and product quality have been continuously refined and enhanced. As at the Latest Practicable Date, we had obtained qualification certificate from API permitting the use of API Monogram and the manufacturing and processing of casing, tubing and plain-end pipes in accordance with API Specification 5CT and on the manufacturing and processing of line pipes in accordance with API Specification 5L. Certification from API is widely regarded and used by established enterprises in the oil and natural gas industry as an effective means in assessing whether the production or operating standards of manufacturers of oil and gas related products are in compliance with generally accepted industry standards.

As a result of global oil prices rebound and the PRC government's policies to increase oil production, the oilfield services and equipment industry showed clear signs of recovery in 2017 and strong rebound in 2018. According to the CIC Report, the exploration and development capital expenditure of the PRC Big-3 NOC has increased during the Track Record Period and the market size of oilfield services and equipment industry in the PRC is expected to increase from RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, representing a CAGR of 5.5%.

For FY2016, FY2017, FY2018 and 6M2019, our revenue amounted to approximately RMB747.9 million, RMB2,276.9 million, RMB3,094.8 million and RMB1,444.0 million, respectively, and our profit/(loss) for the year/period amounted to approximately RMB(53.0) million, RMB232.2 million, RMB301.2 million and RMB117.0 million, respectively. Our loss during FY2016 was primarily due to the relatively less favourable market conditions of the OCTG industry and the process of integration of the production lines of other oil pipes into our Group during that year, which required us to allocate more resources for the implementation of such process and in turn adversely affected the efficiency of the utilisation of our pipe billets production capacity and the overall performance of our Group during the year. Following the integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG by end of 2016, it allowed us to satisfy the demand from our customers on different types of products. Riding on the favourable market conditions, and consequently the economies of scale due to the increase in our utilisation rate of our production lines, we were able to achieve significant growth in our revenue and profitability in FY2017 and FY2018 and reach the net profit of approximately RMB232.2 million and RMB301.2 million for FY2017 and FY2018, respectively. During the Track Record Period, our OCTG and other oil pipes were exported to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea. For FY2016, FY2017, FY2018 and 6M2019, our revenue generated from the sales to overseas markets amounted to approximately RMB80.3 million, RMB90.2 million, RMB263.5 million and RMB107.3 million, respectively, contributing to approximately 10.7%, 4.0%, 8.5% and 7.4% of our revenue, respectively.

COMPETITIVE STRENGTHS

We attribute our success to several principal competitive strengths which will enable us to maintain our preeminent position in the market and bolster our future prospects. These competitive strengths include:

We are a leading OCTG manufacturer among private-owned manufacturers in the PRC with a long-standing track record and well-established reputation in the industry

We established in September 1998 as an OCTG processing factory. Throughout the past 20 years, we have gradually grown to become a leading OCTG manufacturer among private-owned OCTG manufacturers that focuses on OCTG, other oil pipes and pipe billets products and provides full range services from product development to manufacture. While casing had been the only type of OCTG that we had sold during the Track Record Period and up to the Latest Practicable Date, we are also capable of developing and manufacturing tubing, being another major product of OCTG. During the Track Record Period, we had also sold our surplus pipe billets to, amongst others, steel products, oil pipes and energy equipment manufacturers in the PRC after fulfilling our internal production needs. Our vertical full production chain business model allows us to combine our in-house R&D expertise with our manufacturing platform. We offer comprehensive manufacturing solution to our customers, with the capabilities to research and develop and manufacture oil pipe products. This allows us to be more responsive to changes in consumer demands, to save our customers' costs in product development, and to secure continuing orders from customers.

We have focused on building capabilities in the key components of the whole oil pipe value chain. To capture the benefits of our vertical full production chain business model and secure stable and cost-efficient supply of our principal production materials, we manufacture pipe billets (which are the principal material in manufacturing OCTG and other oil pipes) and other oil pipes (namely plain-end pipe which can be further processed into OCTG) for sale and our own production use. Our manufacture of pipe billets and other oil pipes in-house gives us greater control over cost and quality and ensures a reliable supply of our production materials, as well as enhances our capability in meeting customers' demands in terms of volume and delivery time. We are able to significantly lower our production cost by producing pipe billets from scrap metal on our own, rather than purchasing pipe billets from other manufacturers.

Our products are made on demand and our production process has short lead time, allowing us to deliver to our customers high quality products that are customised according to their requirements. The quality of our products and reputation of our brand are evidenced by our market position and our long-term business relationships with customers who are the main market players in the oil and gas industry in the PRC. According to the CIC Report, we are the market leader among private-owned manufacturers in the supply of OCTG in the PRC in 2018 with approximately 9.6% market share based on the sales value of our OCTG in FY2018.

In recognition of our leading position in the industry and the quality of our products, we were awarded the China Top Ten Brands in Casing Production Industry* (中國套管產業十大著名品牌) recognition in 2008, China Quality and Integrity Enterprise* (中國質量誠信企業) recognition in 2010 and Well-known Trademark of Hebei* (河北省著名商標企業) recognition in 2015. We believe that our long-standing track record and well-established reputation in the industry provide us with significant advantages in retaining our key customers and competing for new business.

Our strong full production chain capabilities enable us to offer quality and value-for-money products to our customers

Our Directors believe that we have strong product development, manufacturing, testing and quality control capabilities that enable us to offer quality and value-for-money products to our customers:

Product development capabilities

We closely follow the latest technological development and focus on R&D to introduce new products to expand our product range, and to improve our existing products. Our R&D capabilities have been built based on our objective to manufacture, develop and commercialise new products to cater for our customers' different needs. We have our own R&D institute to develop oil pipe products and the related production technologies in-house, in line with our integrated business model to combine our in-house R&D expertise with our integrated manufacturing platform. Our in-house R&D centre has been certified as Hebei Enterprise Technology Centre* (河北省企業技術中心) in May 2016 and Grade A of R&D Institutions of Industrial Enterprises with Designated Size in Hebei Province* (河北省規模以上工業企業研發機構A級) in September 2017. Based on our sound technical knowledge and innovations, many of the production technologies used in our production and testing processes were developed in-house. Apart from our in-house R&D capabilities, during the Track Record Period and up to the Latest Practicable Date, we also had collaboration with external R&D institutions in the gas and oil industry to work on product development projects. In recognition of our technological capabilities, we have been recognised as a High-tech Enterprise* (高新技術企業) for nine consecutive years since 2009 in Hebei Province, the PRC. For details of our R&D capabilities, please refer to the paragraph headed "Research and Development" and for details of our production technologies, please refer to the paragraph headed "Production — Critical Machinery and Equipment".

Manufacturing capabilities

We are capable of manufacturing casing and tubing, which are the main products of OCTG. We have been certified by API to use the API Monogram and to manufacture and process casing, tubing and plain-end pipes in accordance with the industry standard of API Specification 5CT and to manufacture and process line pipes in accordance with the industry standard of API Specification 5L. Meanwhile, our Dalipal Gaoxin Branch has also obtained the Manufacture Licence of Special Equipment of the PRC (i.e. the TS certification) granted by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC, which allows us to manufacture certain grades of pressure seamless steel pipes.

Our strong manufacturing capability is also evident by our production facilities' production capacity and capabilities. As at 30 June 2019, the designed annual production capacities of our OCTG production line, other oil pipes production line and pipe billets production lines was 200,000 tonnes, 250,000 tonnes and 600,000 tonnes, respectively. Our production facilities are equipped with automated production lines and some of our production and testing equipment were imported overseas from countries such as Belgium, the United Kingdom and Japan. For details of our existing production facilities and critical machinery and equipment, please refer to the paragraph headed "Production".

Testing and quality control capabilities

To ensure the quality of our products, we have an in-house testing centre which has been accredited with ISO/IEC 17025: 2005 General Requirements for the Competence of Testing and Calibration Laboratories (CNAS-CL01 Accreditation Criteria for the Competence of Testing and Calibration Laboratories) by CNAS to undertake the testing of, among others, certain parameter of metal and products (macrostructure) tests and certain metal and products (mechanical properties) tests.

Our testing centre is equipped with advanced inspection and testing instruments and has in place a LIMS system and a MES system. Inspection results could be delivered to our production system in an accurate and timely manner, allowing us to make prompt adjustment to our products if necessary. Each of our production lines is equipped with quality inspection analysis system and a flaw inspection device, with an aim to maintain consistent product quality through effective control during the manufacturing process.

Apart from our testing centre, our quality management department has adopted a set of comprehensive quality control procedures for production, supply and warehousing. For details of such quality control procedures, please refer to the paragraph headed "Quality Control". Our quality management system has been accredited with the ISO9000 series of certifications since 1999 and the API Specification 5CT product certification since 2001 for the production of certain specifications of casing, tubing and plain-end pipe, and the quality management system of our Gaoxin District Branch has been accredited with the API Specification 5CT and API Specification 5L product certification since 2007, the TS certification for certain grades of pressure seamless steel pipes since 2009 and the GB/T 19001–2016/ISO 9001 since 2014 for the manufacture of line pipes, evidencing our Group's commitment in the quality of our products.

Our production equipment demonstrates high level of automatisation, informatisation and intellectualisation

Our critical production and testing machinery and equipment were imported from overseas countries such as Belgium, the United Kingdom, Japan, Germany and Italy. Our production facilities are equipped with automated production lines, which require fewer manpower. We believe that the automated manufacturing facilities, together with our integrated manufacturing model, has enabled us to maximise our operational efficiency to cater for the different requirements of our customers, minimise production costs and have better control over our product quality. As such, we are able to increase our profitability and offer to our customers products that are value for money. For each of FY2016, FY2017, FY2018 and 6M2019, we were able to achieve overall gross profit margin of approximately 6.2%, 19.4%, 19.1% and 18.5%, respectively.

In order to maintain our production capability and strong competitive advantage, and under the guidance of "Made in China 2025" strategy to promote industrial restructuring through enhancing intelligent and green manufacturing, the production facilities under our Phase One Expansion are equipped with smart technology and equipment issued for identification, inspection, control, transmission and warehousing, and adopted information technologies, including applied mathematical models, MES, LIMS, WMS, and ERP, to achieve automatic collection of quality-related data during key production processes and efficient control and management during the product manufacturing process, thereby building several smart production lines.

Smart production lines in the production facilities under our Phase One Expansion for other oil pipes are equipped with sophisticated three-roll pipe mill units, with all key units installed with mathematical models for technological control. Our production systems have the function of real-time online inspection and are capable of obtaining data feedback, thereby achieving stringent control in respect of key quality indicators for other oil pipes. Hence, we will be able to produce oil pipes with outstanding quality and in a cost-effective and efficient manner.

Smart heat-processing production lines in the production facilities under our Phase One Expansion for oil pipes are enabled to achieve accurate temperature control of quenching furnace and tempering furnace by using smart sensors, pulse combustion technology and smart close-circuit control technology, thereby ensuring performance stability and uniformity of products. Advanced material tracking technology is also adopted, which helps to satisfy the requirement regarding tracking product quality.

The WMS system of OCTG and other oil pipes smart database installed in the production facilities under our Phase One Expansion makes deployment decisions regarding smart shuttle buses, lifting devices, distribution cars and stacking machines automatically with the support of material tracking technology and scheduling algorithms, thereby realising automatic collection, storage and distribution of raw materials.

OCTG smart processing lines in the production facilities under our Phase One Expansion are installed with threading machines, smart robots and other advanced equipment, as well as individual marking and identification system for tubing and casing, thread inspection data automatic acquisition system, pipe end automatic flaw detection system, automated control system for coupling application machine, automated water pressure testing system, etc., which ensures processing quality of OCTG products and enhances productivity.

The construction of our production facilities for our Phase One Expansion was completed in August 2019. Following the commencement of commercial production of our new OCTG production facilities in our Bohai New District Factory and the completion of the relocation of our existing OCTG production line in September 2019, the total annual production capacity of our OCTG production line at our Bohai New District Factory has increased to 300,000 tonnes. Further, the commercial production of our other oil pipes production line constructed in our Bohai New District Factory under Phase One Expansion commenced in September 2019 and upon commencement of commercial production in September 2019, our other oil pipes production line constructed under the Phase One Expansion has an annual production capacity of 300,000 tonnes.

We have experienced management with a proven track record

We are led by a management team with a track record of successfully expanding our businesses from an OCTG processing factory to become an integrated OCTG, other oil pipe and pipe billet manufacturer which is capable of developing and manufacturing different specifications of OCTG, other oil pipes and pipe billets. In particular, Mr. Meng, our executive Director, the chairman of our Board and a Controlling Shareholder, who is one of our founders has over 37 years of experience in the oilfield equipment business. Ms. Xu, Ms. Gan and Mr. Yin, our executive Directors, and Mr. Bai, a member of our senior management, each has extensive experience in the OCTG manufacturing or oilfield operation industry. Each of Ms. Xu and Ms. Gan also holds professional qualifications and relevant experience in the fields of legal and accountancy, respectively. With average of over 20 years of experience in the oilfield equipment business as well as experience in various fields, the synergy of our executive Directors and senior management has created the bedrock of our success and development. Please refer to the section headed "Directors and Senior Management" for further details on their qualifications and experience. We believe that their extensive experience and in-depth knowledge of the oilfield equipment business will continue to contribute to our future growth.

Furthermore, our strong and highly motivated sales team has enabled us to develop new business relationship with potential customers. Members of our sales team possess rich relevant experience in the manufacture and field use of OCTG and other oil pipes, as well as relevant technical knowledge to handle customers' queries and to recommend value-added and customised products to meet their needs.

BUSINESS STRATEGIES

Our principal goal is to maintain and strengthen our position as a leading OCTG manufacturer among private-owned manufacturers in the PRC. Building on this positioning, we also aim to expand our existing product mix to become a provider of energy equipment materials in the PRC. To meet our goal, we will implement the following key business strategies:

To expand our production capacity

According to the CIC Report, the market size of the OCTG industry as measured by sales value in the PRC is expected to increase from RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, representing a CAGR of 5.6%. In line with the market trend, we expect that there will be increasing demands for our OCTG and other oil pipes. In particular, it is expected that there will be increase in demand from one of our existing customers, being a member of the PRC Big-3 NOC, pursuant to a strategic cooperation agreement with it for the supply of other oil pipes. We are also currently in negotiation with the other members of PRC Big-3 NOC for the strategic cooperation in the supply of other oil pipes to them. In addition, we are confident that, given our recognition as approved vendor by each of the PRC Big-3 NOC, reputation and technological capabilities, we are capable of capturing new business opportunities and establishing new business relationship with oil companies in the PRC but for the limitation of our existing production capacity, which was almost fully utilised in FY2018, with the utilisation rate of our OCTG, other oil pipes and pipe billets production lines having reached 94.5%, 93.6% and 97.3%, respectively.

In light of the above, we have planned for a series of production capacity expansion in our production facilities to capitalise on the growing demand of OCTG and other oil pipes as well as to increase our market share and strengthen our leading position in the OCTG industry. Our production capacity expansion plan is divided into two phases.

Immediately upon completion of Phase One Expansion, the designed annual production capacity of our respective production lines for OCTG and other oil pipes has been increased by 100,000 tonnes and 300,000 tonnes, respectively, to 300,000 tonnes and 550,000 tonnes, respectively. Prior to Phase One Expansion, there was surplus in our production capacity for pipe billets. The increase in the production capacities of our production lines for OCTG and other oil pipes is expected to result in increase in utilisation of the production capacity of our pipe billets (which designed annual production capacity is 600,000 tonnes and remained unchanged after Phase One Expansion) for internal production use. In August 2019, we had completed the construction of our production facilities for our Phase One Expansion. Commercial production of our new OCTG production line with annual production capacity of 100,000 tonnes in our Bohai New District Factory commenced in September 2019. The total estimated capital expenditure for the Phase One Expansion is in aggregate approximately RMB881.1 million. We have already incurred approximately RMB757.2 million on capital expenditure in relation to the Phase One Expansion up to 6M2019 and the remaining estimated capital expenditure for the Phase One Expansion amounts to approximately RMB123.9 million and is expected to be satisfied with our internal resources and/or external financing by the second half of 2019.

Construction for Phase Two Expansion is expected to start in the second half of 2019 and we plan to further expand the designed annual production capacity of our OCTG, other oil pipes and pipe billets production lines. Phase Two Expansion consists of building new production facilities that are equipped with an intelligent automated production line in our Bohai New District Factory. It is expected that following Phase Two Expansion, the total designed annual production capacity of our OCTG production line, other oil pipes production line and pipe billets production line will be further increased by 100,000 tonnes, 250,000 tonnes and 400,000 tonnes, respectively, to 400,000 tonnes, 800,000 tonnes and 1,000,000 tonnes, respectively. Upon completion of Phase Two Expansion, with our enlarged production capacity, an increased amount of our production capacity will be used to satisfy expected market demands. It is also expected that our increased pipe billets production capacity will be mainly used to satisfy our internal production needs of our other oil pipes, while a small part of it will be used to manufacture, amongst others, pipe billets for energy equipment. We expect to commence commercial production in the pipe billets production line under Phase Two Expansion in or around August 2021 and OCTG production line and other oil pipes production line in or around June 2022.

Our existing employees at our Xinhua District Factory has been relocated to our Bohai New District Factory after the closing down of our Xinhua District Factory to support the increase in production capacity under Phase One Expansion. Furthermore, our existing employees at our Gaoxin District Factory will be relocated to our Bohai New District Factory after the closing down of our Gaoxin District Factory to support the increase in production capacity planned under Phase Two Expansion. Apart from the expected reallocation of our existing employees, we have recruited around 490 additional employees for Phase One Expansion and expect to recruit around 35 employees for Phase Two Expansion. As at the Latest Practicable Date, such additional employees had completed their training and had commenced working in our Bohai New District Factory. Upon completion of Phase Two Expansion we will assign certain of these new employees to Phase Two Expansion.

Our Phase Two Expansion will also be equipped with intelligent automated production facilities, intelligent management system and smart warehousing. With our intelligent management system, which is part of our production facilities, we can develop a comprehensive and integrated management system monitoring different operational process and we will be able to enhance our quality control and overall operational management, and to increase our overall production efficiency. The total estimated capital expenditure for the Phase Two Expansion is in the aggregate of approximately RMB1,223.0 million. The estimated capital expenditure for Phase Two Expansion is expected to be approximately RMB3.0 million, RMB249.7 million, RMB623.9 million, RMB267.3 million and RMB79.1 million for each of the five years ending 31 December 2023, respectively.

Please refer to the paragraph headed "Production — Production Expansion Plan" in this section for further details of our Group's production expansion plan and the expected use of our Group's enlarged production capacity.

We plan to finance the capital expenditure for the Phase Two Expansion with our internal resources, external financing and/or net proceeds from the Global Offering. Please refer to the section headed "Future Plans and Use of Proceeds" for details of our expected use of proceeds for our Phase Two Expansion plan.

Please also refer to the paragraph headed "Production — Production Expansion Plan" in this section for further details of our Phase One Expansion and Phase Two Expansion.

To further strengthen our relationships with key customers, expand our customer base and further expand our sales to overseas markets

According to the CIC Report, market size of the oilfield services and equipment industry, as measured by the exploration and development capital expenditures of the PRC Big-3 NOC, is estimated to increase from approximately RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, at a CAGR of approximately 5.5%. Furthermore, demand for OCTG in the PRC in terms of sales value is estimated to increase from RMB23.2 billion in 2018 to RMB30.5 billion in 2023, at a CAGR of approximately 5.6%.

Given such, the PRC market will continue to be our principal market. We intend to continue to focus on strengthening the business relationship with our existing customers and to expand our customer base by securing new customers. Following the commencement of commercial production of each of our OCTG production line and other oil pipes production line under the Phase One Expansion, we plan to sell our products to other major oil companies in the PRC. We will also collaborate closely with our existing customers to identify changing customers' needs and market demand in order to develop new products or improve our existing products. Meanwhile, for the purpose of enhancing our integrated services, we plan to construct a big data centre during the Phase Two Expansion for us to share and control our products and logistics information with our customers and/or suppliers. The big data centre, through the link up of systems such as ERP, MES and LIMS, will enable us to aggregate, integrate, analyse and optimise data regarding sales, production, quality and logistics for closer and more precise monitoring the procurement, production and delivery process, which can in turn help us in optimising our procurement and production plans and product mix, enhancing our supply chain management and achieving a better allocation and utilisation of our internal resources and production capacity. The big data centre can also help us in identifying and tracing any production or logistics faults and/or bottlenecks in a timely manner, and thereby increase the efficiency of our production process as well as improve the quality of our products. The big data centre will also act as a data sharing platform whereby quality monitoring and analysis data throughout the production process could be shared with our customers, allowing our customers to track our products from production to delivery for better integration with our customers' supply chain management system. We believe that the sharing of data throughout our production process with our customers would increase our customers' reliance on our Group. We aim to develop long-term, strategic cooperation with our customers and suppliers. The PRC Big-3 NOC are positioned as our strategic customers and OCTG and other oil pipes are positioned as our strategic products.

Furthermore, we intend to expand our sales to overseas markets through expanding our existing overseas sales team in the PRC and establishing an overseas sales team in Hong Kong. For our overseas sales of OCTG, we intend to increase our existing sales to Oman and the United Arab Emirates, and tap into the markets of such as Kuwait, Singapore, Australia and Chile. As to our overseas sales of other oil pipes, we intend to increase our existing sales to the United Arab Emirates, and tap into markets of such as Indonesia, Columbia and Chad. Mr. Zhang, who is our non-executive Director and vice-chairman of our Board, will be responsible for advising us on overseas sales expansion with a view to tapping business potential in overseas markets. We plan to recruit experienced sales staff and lease an office in Hong Kong for use as our overseas sales offices. We believe this to be an effective strategy to enlarge our market share, and to promote our corporate image and brand recognition in the international market.

To further strengthen our product research and development and innovation capabilities

We believe that our commitment to R&D is essential to enhancing our sales and marketing position, and our ongoing R&D activities covering manufacturing equipment, production process and technologies can help us to bolster the quality and performance of our OCTG and other oil pipes products. Building on our products that meet API specifications, we plan to widen our product range by developing and promoting our OCTG that are heat resistant, corrosion resistant, extrusion resistant and have other features. We also plan to design and develop special screw threads connector to satisfy the demands from our customers. We hope that, by developing new products with special features and functionalities, we would be able to improve our competitiveness among other market competitors. Apart from R&D in product development, during our Phase Two Expansion, we plan to research on the recycling of smoke discharged by EAF furnaces, whereby metal zinc is extracted from the smoke and further processed into scrap metals for pipe billets production. It is expected our production process will be more environmental friendly and that our purchase costs will be lower, thereby enhancing our efficiency.

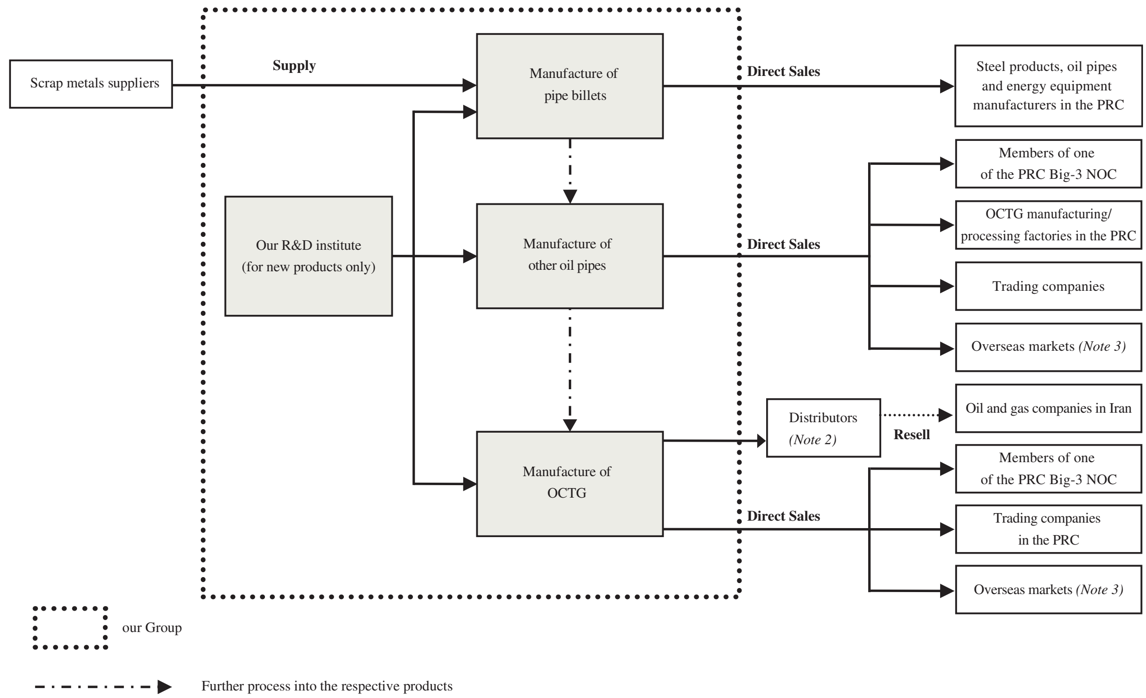
We will continue to place strong emphasis on R&D as well as allocate more resources to strengthen training for our R&D staff and strengthen external cooperation. At present, we have cooperation with CSG Smart Science & Technology Co. Ltd* (科大智能科技股份有限公司) and Xi'an University of Architecture and Technology* (西安建築科技大學冶金工程學院) in the areas of product development, production optimisation and intelligent production. We will continue to pursue technological innovation, management innovation and strategic innovation, continuously enhancing our level of automated and intelligent production process.

OUR BUSINESS MODEL

We are a leading OCTG manufacturer among private-owned manufacturers with an integrated business model, providing full range services covering the development, manufacture and sales of OCTG and other oil pipes to oil companies, OCTG manufacturers and OCTG processing factories in the PRC. Our strong commitment in R&D and the combination of our in-house R&D expertise with integrated manufacturing platform enable us to operate under a short-cycled integrated business model. To capture the benefit of vertical integration of our manufacturing operation and secure stable and cost-efficient supply of our principal production materials, we manufacture pipe billets (which are the principal raw material in the manufacturing of other oil pipes) and other oil pipes (which can be further processed into OCTG) for sale and our own production.

Sales of our OCTG and other oil pipes depend largely on the locations of our customers, as well as the locations of our customers' construction projects, and we derived most of our revenue from our major customers in the PRC during the Track Record Period. We also export some of our other oil pipes and OCTG to customers in overseas markets. During the Track Record Period, we had sold our products directly to our customers in the PRC and sold our products to overseas markets directly or through our distributors.

The following diagram illustrates our business model:



Notes:

1. The above diagram only illustrates the types of our major customers during the Track Record Period.

2. During the Track Record Period, our sales to Iran were conducted through one distributor. As of the Latest Practicable Date, all distributorship arrangements for sales to Iran had been terminated.

3. During the Track Record Period, we had sold to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

During the Track Record Period and up to the Latest Practicable Date, we had purchased OCTG, which mainly include those that have large specifications and/or low steel grade, from two Independent Third Party suppliers, the largest shareholder holding over 50% of the equity interest in each of which were spouses at the material time when the transactions took place, to satisfy the OCTG purchase orders from one of our customers which is also a member of the PRC Big-3 NOC. Both of the suppliers were OCTG manufacturers that were capable of manufacturing OCTG that meets API specifications and were in the proximity of such customer, making it more convenient for us to from time to time adjust and customise the specifications of the OCTG so supplied to meet such customer's needs. We purchased OCTG from such suppliers after taking into account (i) the then usable OCTG production capacity of our Group, particularly as our OCTG production capacity in FY2017, FY2018 and 6M2019 was almost fully utilised, while the utilisation of our OCTG production capacity in FY2016 was adversely affected by the process of our production lines integration during that year; (ii) the economic benefits of us reserving our production capacity to manufacture OCTG with high steel grades to achieve higher gross profit; (iii) the demand for OCTG with large specification or low steel grade products from our other customers was insignificant during the Track Record Period, and therefore it was more efficient for us to purchase such products from our suppliers instead of adjusting our production line to fit the required specifications. Apart from the above, we had also manufactured and sold OCTG with high steel grades and small specifications to such customer during the Track Record Period.

For purchase of OCTG from our suppliers, we specify the specification requirements when placing orders and would monitor the manufacturing process and perform quality control on the finished products by sending our staff to the production lines of the suppliers from time to time to ensure that the quality of the finished products meets the requirements of the customer. For each of FY2016, FY2017, FY2018 and 6M2019, our aggregate purchase costs attributable to the respective supplier(s) were approximately RMB174.2 million, RMB370.1 million, RMB335.5 million and RMB125.8 million, representing approximately 36.7%, 28.7%, 16.8% and 13.9% of our total purchase costs, respectively. Our revenue generated from the sales of OCTG purchased from the two suppliers to the customer were approximately RMB177.3 million, RMB374.5 million, RMB340.0 million and RMB127.5 million, representing approximately 29.8%, 27.8%, 19.9% and 14.5% of our revenue generated from sales of OCTG for FY2016, FY2017, FY2018 and 6M2019, respectively.

Except for the aforesaid, we did not have any other material purchases of OCTG from our suppliers during the Track Record Period. It is expected that with the increase in production capacity upon completion of Phase One Expansion, we will reduce the purchases of OCTG from our suppliers.

According to the CIC Report, the market size of the OCTG industry as measured by sales value in the PRC is expected to increase from approximately RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, representing a CAGR of 5.6%. With the utilisation rate of our OCTG production line having reached 94.5% in FY2018, we expect the increase in production capacity of our OCTG production line by 100% following completion of the Phase One Expansion and Phase Two Expansion will enable us to capture additional demand from the market, and thereby increase our Group's revenue and profitability in the future. It is expected that by expanding our OCTG production capacity instead of purchasing OCTG from our third party suppliers, we will be able to achieve higher profit margin and better control the quality of our OCTG as well as the timing of production. Further, it is also expected that we will be able to save cost by reducing the purchases of

OCTG from third-party suppliers. For illustration purpose only, the average purchase cost of OCTG of our Group during the Track Record Period was approximately RMB5,600 per tonne, while our average production cost of OCTG during the Track Record Period was approximately RMB4,300 per tonne. The actual cost saving impact is subject to factors such as purchase amounts of the individual order, cost of raw materials and specifications of the OCTG being ordered. With the additional internal production capacity, we can also be assured of a stable supply of OCTG to satisfy our customers' demands as and when required, thereby reducing reliance on our OCTG suppliers. Please refer to the section headed "Financial Information — Review of Historical Operating Results — Period to period comparison of results of operations" for an analysis of the gross profit and gross profit margin for the sales of OCTG by us. Yet, the expansion of our OCTG production capacity would incur a capital expenditure which has an impact on our cost structure. Such capital expenditure for the expansion of our OCTG production capacity under Phase One Expansion is expected to be financed with, amongst other, our internal resources and/or banking facilities. By taking out banking facilities, our interest expenses, debt to equity ratio and reliance on external financing will be increased temporarily. Please refer to the section headed "Financial Information — Working Capital Sufficiency — Liquidity management measures" for the measures adopted by us to strengthen our liquidity management.

OUR PRODUCTS

Our products comprise three categories, namely, (i) OCTG; (ii) other oil pipes; and (iii) pipe billets. The following table sets forth a breakdown of our revenue by product types during the years/periods indicated:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
OCTG*(Note 1)*	594,849	79.5	1,345,154	59.1	1,709,755	55.2	709,197	52.1	877,062	60.7
Other oil pipes*(Note 2)*	143,323	19.2	230,694	10.1	345,394	11.2	147,726	10.8	181,307	12.6
Pipe billets	9,695	1.3	701,026	30.8	1,039,674	33.6	506,026	37.1	385,631	26.7
Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Notes:

1. Casing was the only type of products sold under this category during the Track Record Period.

2. Plain-end pipes were the principal types of products sold under this category during the Track Record Period.

Sales Quantities, Average Selling Prices and Product Life Cycle

The following table sets forth the sales quantities, average selling prices, average production cost, price range and approximate product life cycle of our products during the years/periods indicated:

	FY2016				FY2017				FY2018				6M2018				6M2019				Approximate product life cycle (years) (Note 3)
	Total sales quantities ('000 tonnes)	Approximate average selling price per tonne (RMB)	Approximate average production cost per tonne (RMB)	Approximate selling price range per tonne (Note 2) (RMB)	Total sales quantities ('000 tonnes)	Approximate average selling price per tonne (RMB)	Approximate average production cost per tonne (RMB)	Approximate selling price range per tonne (Note 2) (RMB)	Total sales quantities ('000 tonnes)	Approximate average selling price per tonne (RMB)	Approximate average production cost per tonne (RMB)	Approximate selling price range per tonne (Note 2) (RMB)	Total sales quantities ('000 tonnes)	Approximate average selling price per tonne (RMB)	Approximate average production cost per tonne (RMB)	Approximate selling price range per tonne (Note 2) (RMB)	Total sales quantities ('000 tonnes)	Approximate average selling price per tonne (RMB)	Approximate average production cost per tonne (RMB)	Approximate selling price range per tonne (Note 2) (RMB)	
OCTG (Note 1)	166.1	3,581	3,342	2,974–6,068	266.9	5,040	4,031	2,942–6,193	262.4	6,515	4,876	4,642–7,189	116.5	6,088	4,383	4,642–7,000	134.4	6,526	4,974	5,207–8,937	10 to 30
Other oil pipes	43.3	3,304	3,177	2,197–4,316	56.5	4,083	3,384	2,991–5,385	64.5	5,357	4,460	3,821–6,638	28.8	5,121	3,960	3,821–6,043	35.4	5,122	4,229	3,805–7,026	Above 20
Pipe billets	3.6	2,665	2,372	1,699–3,590	219.0	3,201	2,594	1,709–4,957	284.8	3,651	3,288	3,146–4,534	141.9	3,566	3,141	3,231–4,316	109.5	3,522	3,278	3,147–4,129	N/A (Note 4)

Notes:

1. Casing, which is the major product of OCTG, was the only type of products sold under this category during the Track Record Period.

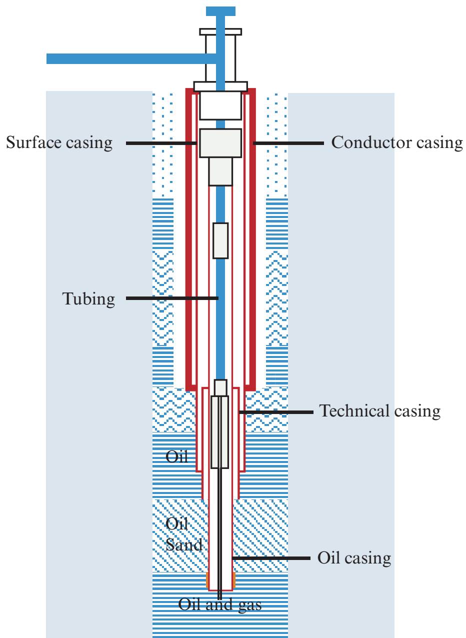
2. This only includes the selling price range of our key products.

3. The life cycles of different products are estimated with reference to our past experience and are for indication purpose only.

4. As pipe billets are a semi-finished product which is used for further processing into other products, no approximate product life cycle may be indicated.

Product Portfolio

OCTG



Source: CIC

OCTG comprises casing, tubing and drill pipes, the proportion of the overall consumption volume of which is approximately 75%, 15% and 10%, respectively. Casing are used for supporting the well wall of oil and gas wells to ensure normal operation of the entire well during the drilling process and after completion. Each well uses layers of casing, depending on different depths of the wells and geological conditions. Casing must be cemented once lowered into the well. Unlike tubing and drilling pipes, casing is a type of consumable and non-reusable material. Tubing is a pipe that is capable of withstanding pressure during the extraction process and is used to transport oil or gas from the oil and gas bed to the surface after completion of drilling.

The casing we manufacture are conductor casing, surface casing, technical casing and oil casing. Once casing is in place, tubing is run through the casing for oil or gas extraction.

Different casing with different specifications and materials are used depending on the depth and geology of the well. Therefore, our OCTG are made to orders depending on our customers' requirements and we supply our customised OCTG in such amount pursuant to the sales orders or contracts placed by our customers.

Casing was the only type of OCTG sold by us during the Track Record Period. Our casing has an outside diameter ranging from 4.5 inches to 20 inches with a wall thickness ranging from 0.21 inches to 0.64 inches.

Following our Phase One Expansion, it is expected that we will utilise part of our production capacity to manufacture tubing. Our tubing would have an outside diameter ranging from 2.4 inches to 4.5 inches with a wall thickness ranging from 0.17 inches to 0.43 inches.

Other oil pipes

Other oil pipes are made from pipe billets through metal deformation and heat treatment. Other oil pipes mainly include plain-end pipes and line pipes. plain-end pipes are a semi-finished product of OCTG with unprocessed threads. Our plain-end pipes are either used by us internally for further processing, or are sold to our customers. Line pipes are used for the transportation of oil and gas within oilfields and are sold by us to our customers. During the Track Record Period, the majority of the other oil pipes sold by us was plain-end pipes.

Our other oil pipes have an outside diameter ranging from 4.5 inches to 10.7 inches with a wall thickness ranging from 0.2 inches to 0.9 inches.

As at the Latest Practicable Date, we had obtained qualification certificate from API permitting the use of API Monogram on the manufacturing and processing of casing, tubing and plain-end pipes in accordance with API Specification 5CT and the processing of line pipes in accordance with API Specification 5L. Certification from API is widely regarded and used by established enterprises in the oil and natural gas industry as an effective means in assessing whether the production or operating standards of manufacturers of oil and gas related products are in compliance with generally accepted industry standards. The table below sets forth a breakdown of the revenue contribution to our total revenue by API and non-API products for each product type during the years/period indicated:

		FY2016		FY2017		FY2018		6M2019	
		RMB'000	*Approximate percentage of our total revenue*	*RMB'000*	*Approximate percentage of our total revenue*	*RMB'000*	*Approximate percentage of our total revenue*	*RMB'000*	*Approximate percentage of our total revenue*
OCTG	API	577,044	77.1%	1,289,009	56.6%	1,565,661	50.6%	788,978	54.6%
	Non-API	17,805	2.4%	56,145	2.5%	144,094	4.7%	88,084	6.1%
Other oil pipes	API	106,845	14.3%	181,911	8.0%	305,857	9.9%	181,307	12.6%
	Non-API	36,478	4.9%	48,783	2.1%	39,537	1.3%	—	—

Pipe billets

Pipe billets are made from scrap metal. They are a cylindrical material that meets the requirements of other oil pipes and energy equipment manufacturing. Pipe billets, through further processing, may be made into other oil pipes and energy equipment materials of different specifications for different purposes. Pipe billets manufactured by us are either further processed by us for the production of other oil pipes or sold to our customers in the PRC.

Our pipe billets have an outside diameter ranging from 6.3 inches to 23.6 inches.

BUSINESS OPERATIONS

Our business operations can be categorised into five key stages, namely (i) product R&D; (ii) sales (placing of order by customers); (iii) production; (iv) delivery; and (v) aftersales services. Our general business operations are illustrated below:

Stage	Time required *(Note 1)*	Responsible department
Product R&D *(Note 2)*	10 to 180 days	Our R&D institute — We develop products. — The OCTG being supplied to our customers are developed depending on the use of the OCTG and the conditions of the oil wells.
Sales	To existing customers: — Domestic market: within 15 days; overseas market: one to 15 days. To new customers: — Domestic market: ten to 30 days; overseas market: five to 15 days.	Sales centre — We confirm orders or enter into sales agreements with our customers.
Production	The time required for our production depends on the order quantities, quantities and specifications	Production and manufacturing department — Proceed with production in accordance with orders. — Operation coordination is performed throughout the manufacturing process.

Stage	Time required *(Note 1)*	Responsible department
Delivery	Domestic market: depending on the distance, quantities and mode of transportation, one to ten days; overseas market: 25 to 50 days	Logistics management department — For domestic sales, we deliver to our customers' designated locations. — For overseas sales, we generally sell our products on FOB (free on board) term and our customers are generally responsible for the compliance with the applicable overseas import and other local product safety and quality requirements.
Aftersales	Upon request from customers	Sales and marketing centre, our R&D institute and quality management department — We provide warranty that is valid from 12 months to 24 months for our products to our customers to replace products with quality defects. — We provide onsite verbal technical advice to our customers on the use and installation of OCTG in the oilfields.

Notes:

1. The time required for each of the five key stages is estimated with reference to our past experience and it is for indication purpose only.

2. Only new products, which may be OCTG, other oil pipes and pipe billets, being manufactured by us for the first time, would undergo the R&D stage.

PRODUCTION

Integration of production of other oil pipes into our Group

We achieved full integration of our business model covering production of pipe billets, other oil pipes and OCTG by end of 2016. Before the integration of production of other oil pipes into our Group, we only had capabilities in the production of pipe billets and OCTG. In the absence of other oil pipes production lines, we could not achieve an integrated business model that provides full range of production. In August 2014, Hebei Litonglian, which had been producing ordinary structural tubes and fluid tubes, transferred certain land use rights and business assets to our Group. Between August 2014 and October 2014, we conducted preparation works, such as recruiting the relevant staff and activating machineries, to prepare for the transformation of the production facilities for integration into our business model. As the production facilities were originally used by Hebei

Litonglian mainly for production of ordinary structural tubes and fluid tubes, in order to transform such production facilities so as to fit our production needs for manufacturing pipes for use in oil exploration, during the period from October 2014 to December 2016, we performed certain improvement and transformation works on the relevant production facilities before we achieve full integration by end of 2016. For details of the major events leading to such integration, please refer to the section headed "Financial Information — Key Information Affecting Our Results of Operations and Financial Conditions — Integration of production of other oil pipes into our Group".

It took time and resources for our Group to identify any deficiency in the existing production facilities at Gaoxin District Factory, to conduct feasibility study on the improvement and transformation (including adjustment and transformation of not only the other oil pipes production line, which eventually its other oil pipes could be used to produce OCTG, but also the pipe billets production line in order for it to be able to manufacture pipe billets with specification which could match the specification requirement of the other oil pipes production line for further processing into other oil pipes), and to implement such improvement and transformation before the operation of such production facilities can be fully integrated into our business model and can be operated smoothly. The unreliability and uncertainty in efficiently and effectively utilising the production capacity of the production facilities at Gaoxin District Factory from time to time before completion of these improvement and transformation works on both the pipe billets production line (for example, some of the specification of pipe billets were adjusted to suit the production requirement of other oil pipes) and the other oil pipes production line had also disturbed the procurement and production plans of all production lines of our Group, adversely affected the overall performance of our Group and as a combined effect of the relatively less favourable market condition in 2016, resulting in our net loss in FY2016. For details of the impact on our operational and financial performance associated with such integration, please refer to the section headed "Financial Information — Review of Historical Operating Results — Period to period comparison of results of operations — Year ended 31 December 2017 compared to year ended 31 December 2016".

Existing Production Facilities

As at the Latest Practicable Date, we operated two production facilities and one warehouse in the PRC. During the Track Record Period, we had manufactured casing in our Xinhua District Factory. Due to land resumption by the relevant government authority of part of the land on which our Xinhua District Factory was situated, we had relocated our production facilities at our Xinhua District Factory to our Bohai New District Factory, and the title certificates of the land with a total site area of approximately 66,700 sq. m. at which our Xinhua District Factory was situated had been surrendered to the relevant government authority. For further details, please refer to the section headed "Business — Properties". The below table sets forth the location, product categories, existing designed annual production capacity, year of initial construction or acquisition and approximate total site area of each of our key production facilities:

Production Facility	Location	Primary Manufactured products/Use	Existing designed annual production capacity *('000 tonnes)*	Initial Construction Year/Year Acquired	Approximate total site area *(sq.m.)*
Bohai New District Factory	Bohai New District, Cangzhou, Hebei Province, the PRC	Pipe billets	600	2009	
		OCTG *(Note)*	300	2017	530,925.0
		Other oil pipes	300	2017	
Gaoxin District Factory	Gaoxin District, Cangzhou, Hebei Province, the PRC	Other oil pipes	250	2014	171,272.2
Xinhua District Warehouse	San Lizhuang, Xinhua District, Cangzhou, Hebei Province, the PRC	Inventory storage and logistics	N/A	2004	111,711.5

Note: This comprises of a new production line with annual production capacity of 100,000 tonnes and the OCTG production line with annual production capacity of 200,000 tonnes that was relocated from our Xinhua District Factory.

As at 30 June 2019, our production and manufacturing department consisted of 1,259 staff. We organise our production staff into three shifts, while each shift works eight hours per day and six days a week, so that we can maximise our production capacity.

Critical Machinery and Equipment

Our production facilities are equipped with automated production lines, which require minimal human operation, allowing us to reduce labour costs and focus our manufacturing facility staffing on maintenance and supervisory personnel. Some of our critical production and testing equipment were imported overseas from countries, such as Belgium, the United Kingdom, Germany, Japan and Italy.

We have also internally developed many of the production technologies used in our production and testing processes. The details of the key technologies developed by us internally are set forth below:

Technology	Use	Year of development
Special air-tight screw threads casing (氣密封特殊螺紋套管)	For wells with poor conditions	2014
Anti hydrogen sulfide erosion casing (抗硫化氫腐蝕套管)	For wells with hydrogen sulfide	2016
Highly collapse-resistant casing (高抗擠毀套管)	Casing for deep wells	2017
High strength and flexibility casing (高強高韌套管)	Casing for extra-deep wells	2018
Heat-resistant casing (耐高溫套管)	Casing for thermal production wells	2018

Key machinery and equipment applied in our production processes are set forth below:

Equipment Name	Use	Country of origin
Pipe Billets Production		
EAF furnace	For melting of scrap metal	The PRC
Ladle furnace	For refining liquid steel	The PRC
Round billet continuous casting machine (圓坯連續鑄造機)	For production of round billet continuous casting	The PRC
Other Oil Pipes Production		
Circular heating furnace (環形加熱爐)	For heating of pipe billets	The PRC
Tube mill (軋管機)	For tube milling	The PRC
Quenching and tempering furnace (淬火, 回火爐)	For heating of steel pipes	The PRC
Ultra-sound flaw detection machine (超聲波探傷檢測儀)	For flaw detection of casing, line pipes and coupling materials	United Kingdom
OCTG Production		
OCTG threading machine (石油專用管攻絲機)	For coupling of oil casing threads	Belgium
Coupling application machine (接箍擰接機)	For screwing of tubing and casing couplings	The PRC
Hydrostatic pressure testing machine (靜水試壓機)	For hydrostatic pressure testing of steel pipes	The PRC

We carry out inspections and maintenance at our production facilities. Our inspections and maintenance are conducted on periodic basis, while maintenance overhauls are regularly carried out on the whole production facility at a particular location. We conduct annual equipment maintenance which lasts for two to four weeks on average at some of our production facilities with large scale equipment. We have developed and implemented internal procedures at our production facilities periodically according to the characteristics and requirements of the particular equipment and machinery in order to ensure they function properly. During the Track Record Period, we did not experience any material or prolonged suspensions of operations due to machinery, equipment or other facility failures.

We acquired all the above machinery and equipment. We adopt a straight-line depreciation policy on our plant and machinery over the estimated useful lives of the assets, after taking into account the estimated residual values. For details of the relevant accounting policies and estimates, please refer to Notes 2 and 3 to the Accountants' Report in Appendix I. As at 30 June 2019, the carrying value of the our machinery and equipment was approximately RMB443.1 million, representing 12.4% of our total assets. Their useful lives generally range from around three to 15 years old.

Production Capacity and Utilisation Rate

We have maintained consistently high utilisation rates, in particular in FY2017, FY2018 and 6M2019. The following table sets forth a summary of our annual production capacity in terms of designed production capacity and utilisation rates for our key production lines by product type during the Track Record Period:

	FY2016			FY2017			FY2018			6M2019			
	Designed annual production capacity ('000 tonnes) (Note 1)	Actual output ('000 tonnes)	Utilisation rate (Note 2)	Designed annual production capacity ('000 tonnes) (Note 1)	Actual output ('000 tonnes)	Utilisation rate (Note 2)	Designed annual production capacity ('000 tonnes) (Note 1)	Actual output ('000 tonnes)	Utilisation rate (Note 2)	Designed annual production capacity ('000 tonnes) (Note 1)	Designed production capacity for the period ('000 tonnes)	Actual output ('000 tonnes)	Utilisation rate (Note 3)
OCTG	200	114	57.0%	200	172	86.0%	200	189	94.5%	200	100	90	90.0%
Other oil pipes	250	137	54.8%	250	214	85.6%	250	234	93.6%	250	125	122	97.6%
Pipe billets	600	152	25.3%	600	490	81.7%	600	584	97.3%	600	300	260	86.7%

Notes:

(1) The designed annual production capacity of each of our product types is based on the annual production capacity of our key production lines for production of products with different types of products in a prescribed proportion and on the basis of the operating hours of the particular year.

(2) The utilisation rate is calculated based on the actual output for the relevant year divided by the designed annual production capacity for the relevant period.

(3) The utilisation rate is calculated based on the actual output for the period divided by the designed production capacity for the period.

Production Expansion Plan

Pursuant to certain PRC government policies, such as "Made in China 2025", to promote industrial restructuring through enhancing intelligent and green manufacturing and the plans of the local government of Cangzhou City and Hebei Province of the PRC to implement measures in relocating manufacturing enterprises to improve environmental protection, we plan to relocate and consolidate our production facilities and warehouse in our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse to our Bohai New District Factory by phases. Our Xinhua District Factory had been closed down after the completion of the relocation of our existing OCTG production line in September 2019 and our Gaoxin District Factory will be closed down after the relocation of its production facilities and the commencement of the commercial production of our new other oil pipes production facilities constructed at Phase Two Expansion, which is expected to be in or around June 2022.

Apart from consolidating our existing production facilities into one stop shop manufacturing platform in our Bohai New District Factory, we have planned for a series of production capacity increase in our production lines to capitalise on the growing demand for our products as well as to strengthen our leading position in the OCTG industry. Our production capacity increase plan is divided into two phases and the table below sets forth the details of, among others, our expected capital expenditure, additional designed annual production capacity and expected timeline:

	Key products	Additional designed annual production capacity	Estimated capital expenditure *(Notes 1, 2)*	Commencement time of expansion/expected commencement time of expansion	Time/expected time of commencing commercial production *(Note 3)*
			RMB million		
Phase One Expansion at Bohai New District Factory					
OCTG production line	Casing and tubing	Approximately 100,000 tonnes per annum	200.2	October 2017	September 2019
Other oil pipes production line	Other oil pipes	Approximately 300,000 tonnes per annum	540.8	August 2017	September 2019
	Subtotal:		741.0		
Others *(Note 4)*	N/A	N/A	140.1	N/A	N/A
	Total:		**881.1**		
Phase Two Expansion at Bohai New District Factory					
OCTG production line	Casing and tubing	Approximately 100,000 tonnes per annum	60.0	September 2019	June 2022
Other oil pipes production line	Other oil pipes	Approximately 250,000 tonnes per annum	788.0	October 2020	June 2022
Pipe billets production line	Pipe billets	Approximately 400,000 tonnes per annum	272.0	January 2020	August 2021
	Subtotal:		1,120.0		
Smart warehousing system	N/A	N/A	103.0	N/A	N/A
	Total:		**1,223.0**		

Notes:

1. We have already incurred approximately RMB76.7 million, RMB469.5 million and RMB211.0 million on capital expenditure in relation to the Phase One Expansion for FY2017, FY2018 and 6M2019, respectively. The remaining estimated capital expenditure for the Phase One Expansion is expected to be approximately RMB123.9 million for the six months ending 31 December 2019.

2. The estimated capital expenditure for the Phase Two Expansion is expected to be approximately RMB3.0 million, RMB249.7 million, RMB623.9 million, RMB267.3 million and RMB79.1 million for each of the five years ending 31 December 2023.

3. The expected time of commencing commercial production for each of the production lines is based on the best knowledge, information and belief of our Directors taking into account their past experience.

4. This includes the relocation of other ancillary facilities that are used in the production process and the relocation of our testing centre.

The following table sets forth the total designed annual production capacity of our OCTG production line, other oil pipes production line and pipe billets production line immediately after the completion of Phase One Expansion and Phase Two Expansion:

	Existing designed annual production capacity (tonnes)			Total designed annual production capacity immediately after completion of Phase One Expansion (tonnes)			Total designed annual production capacity immediately after completion of Phase Two Expansion (tonnes)		
	OCTG production line *(Note 1)*	Other oil pipes production line	Pipe billets production line	OCTG production line	Other oil pipes production line	Pipe billets production line	OCTG production line	Other oil pipes production line	Pipe billets production line
Bohai New District Factory	N/A	N/A	600,000	300,000 *(Note 3)*	300,000	600,000	400,000 *(Note 3)*	800,000	1,000,000
Gaoxin District Factory	N/A	250,000	N/A	N/A	250,000	N/A	N/A	N/A *(Note 4)*	N/A
Xinhua District Factory	200,000	N/A	N/A	N/A *(Note 2)*	N/A	N/A	N/A	N/A	N/A
Total:	200,000	250,000	600,000	300,000	550,000	600,000	400,000	800,000	1,000,000

Notes:

1. During FY2016, FY2017 and FY2018, our existing OCTG production line had only manufactured casing. During 6M2019, in addition to casing, we had also manufactured an insignificant amount of tubing.

2. We have started to gradually relocate our existing OCTG production line from our Xinhua District Factory to our Bohai New District Factory since the end of June 2019 to consolidate with the new OCTG production line constructed under Phase One Expansion and the relocation was completed in September 2019.

3. Considering the time required in importing machinery from overseas and the more favourable price for bulk purchases, we have purchased both the machinery that would form part of the OCTG production lines under Phase One Expansion and Phase Two Production in the same order. As at the Latest Practicable Date, the machinery that would be subsequently relocated to the OCTG production line under Phase Two Expansion had been delivered to us for inspection and testing purpose. Prior to the commencement of Phase Two Expansion, such machinery would also be used for temporary OCTG production. However, such machinery may not reach its normal capacity until the ancillary equipment and machinery of the OCTG production line under the Phase Two Expansion and the machinery relocation is completed, which is expected to be in or around June 2022.

4. It is expected that our other oil pipes production line at Gaoxin District Factory will be closed down after the other oil pipes production facilities constructed at Phase Two Expansion have commenced production which is expected to be in or around June 2022.

Our production expansion plans have been determined on the basis of, among other things, (i) estimated market supply and demand for relevant products, taking into account the expected growth in the market size of the OCTG industry as measured by sales value in the PRC from approximately RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, at a CAGR of approximately 5.6%; (ii) prevailing and anticipated prices for relevant products; (iii) utilisation of existing manufacturing facilities; (iv) estimated cost of development; and (v) availability and cost of sufficient capital resources. It is expected that the increased production capacity for our OCTG and other oil pipes production line, following the increase in production capacity in each of Phase One Expansion and Phase Two Expansion, will be used to capture the increasing demands for OCTG and other oil pipes, and thereby increasing our market share. It is also expected that with our additional production capacity for OCTG, we will be able to meet our customers' demand on our own instead of having to purchase OCTG from our OCTG suppliers (please refer to the paragraph headed "Our Business Model" in this section for further details), and instead satisfy the demands for OCTG from our customers with our own production capacity.

Our production capacity expansion plan is divided into two phases, namely the Phase One Expansion and the Phase Two Expansion:

- *OCTG:* The designed annual production capacity of our OCTG production will be increased by 100,000 tonnes to 300,000 tonnes under Phase One Expansion, and further increased by 100,000 tonnes to 400,000 tonnes under Phase Two Expansion. The overall increase in the annual production capacity of our OCTG production line will be 100% following Phase One Expansion and Phase Two Expansion. Given that the sales quantities of our OCTG in FY2017 and FY2018 amounted to approximately 266,900 tonnes and 262,400 tonnes, respectively, it is expected that the annual production capacity of 300,000 tonnes of our OCTG production line upon completion of Phase One Expansion will substantially be used to satisfy the existing demands for our OCTG. The further increase in our designed annual production capacity of our OCTG production line by 100,000 tonnes under Phase Two Expansion is expected to be used to capture additional market demands as discussed below.

- *Other oil pipes:* The designed annual production capacity of our other oil pipes production line will be increased by 300,000 tonnes to 550,000 tonnes under Phase One Expansion, and further increased by 250,000 tonnes to 800,000 tonnes under Phase Two Expansion. The overall increase in annual production capacity of our other oil pipes production line will be 220% following Phase One Expansion and Phase Two Expansion. It is expected that 300,000 tonnes and 400,000 tonnes of our other oil pipes designed annual production capacity will be used to satisfy our internal production needs for OCTG upon completion of the Phase One Expansion and Phase Two Expansion, respectively, with the remaining designed annual production capacity of 250,000 tonnes and 400,000 tonnes, respectively, to be used to satisfy our existing market demands and capture additional market demands as discussed below.

- *Pipe billets:* the designed annual production capacity of our pipe billets production line will remain the same under Phase One Expansion and be increased by 400,000 tonnes to 1,000,000, or by approximately 66.7%, under Phase Two Expansion. It is expected that amongst the 1,000,000 tonnes production capacity of our pipe billets production line, 800,000 tonnes of the production capacity upon completion of Phase Two Expansion will be used to support our internal production needs, enabling us to capture the expected increasing market demands of OCTG and other oil pipes as discussed below, and that the remaining 200,000 tonnes will be sold to our customers directly or used to manufacture, amongst others, pipe billets for energy equipments. Given that the sales quantities of our pipe billets amounted to approximately 219,000 tonnes and 284,800 tonnes in FY2017 and FY2018, respectively, our Directors are confident that there will be sufficient market demands for our pipe billets following Phase Two Expansion.

According to the CIC Report, our market share in terms of sales value of OCTG and plain-end pipes was approximately 7.7% in 2018. With our qualification as approved vendors of each of the PRC Big-3 NOC, reputation and technological capabilities, we are confident that we will be able to increase our market share with our increased production capacity following Phase One Expansion and Phase Two Expansion.

We have well-established relationship with members of one of the PRC Big-3 NOC which are our top five customers and with which we have over 10 (and for some, almost 20) years of business relationship. Our Directors expect that there will be an increasing demand for our OCTG and other oil pipes from our existing customers:

- The demands from Customer A and Customer C, which operate two of the largest oilfields in the PRC in terms of oil-gas valent weight in 2017, are high and increasing at a rate above industry level, according to the CIC Report. The total market demands for OCTG from each of Customer A and Customer C amounted to approximately 1.1 million tonnes and approximately 0.4 million tonnes, respectively, in 2017, contributing to approximately 39.6% of the total demand for OCTG in the PRC. It is expected that the demand for OCTG by each of these two largest oil companies in the PRC will increase by a CAGR of approximately 4.2% and 3.6%, respectively, between 2018 and 2022, which is higher than the CAGR of 3.4% for the demand of OCTG by overall oil and gas industry.

- Based on the information available to our Directors, Customer A and Customer B, who ranked top two in terms of revenue contribution to our Group throughout the Track Record Period, are in the course of exploring new oilfields across the PRC. Our Directors therefore expect that there will be an increase in demands for our OCTG and other oil pipes from these two customers.

- Some of our existing domestic and overseas customers have issued letters of intent to us expressing their intention to continue to cooperate with us.

- Following the entering into of a strategic cooperation framework agreement for the supply of other oil pipes with one of the members of one of the PRC Big-3 NOC at the end of the FY2018 with details set out in paragraph headed "Customers — Domestic Sales — Strategic cooperation framework agreement" in this section, we have already received purchase orders of approximately 42,700 tonnes of other oil pipes from such customer as of 31 August 2019. We expect that we will receive further purchase orders for other oil pipes during the term of the strategic cooperation framework agreement. We are also currently in negotiation with the other members of the PRC Big-3 NOC for the strategic cooperation in the supply of other oil pipes to them.

Apart from capturing the increasing demands from our existing customers, our Directors also expect that we will be able to further expand our customer base and extend our sales to other new customers who we have not previously cooperated with due to the constraints in our production capacity.

- As mentioned in the paragraph headed "Strategies — To further strengthen our relationships with key customers, expand our customer base and further expand our sales to overseas market" in this section, we intend to continue to focus on strengthening the business relationship with our existing customers and to expand our customer base by securing new customers and expand our sales to overseas market through expanding our existing overseas sales team in the PRC and establishing an overseas sales team in Hong Kong. We believe that our excellent product quality, service capabilities and recognition from our customers will guarantee an increasing demand for our products. We have continued to expand our customer base by securing new customers, that a total of three new customers have placed orders with us for the purchase of OCTG and other oil pipes during 6M2019. The sale quantities of our other oil pipes increased by approximately 22.7% from approximately 29,800 tonnes in 6M2018 to 35,400 tonnes in 6M2019.

- We also plan to expand our market to members of another PRC Big-3 NOC and another oil company in the PRC which is not a member of the PRC Big-3 NOC, both of which have recognised us as approved vendor. The said PRC Big-3 NOC has issued a letter of intent to us expressing its support to us and its intention to place purchase orders for OCTG with us.

Based on the above, our Directors believe that there is great potential in the OCTG and other oil pipes market and are confident that the demands for our OCTG and other oil pipes will be on an increasing trend. However, with the utilisation rate of our OCTG and other oil pipes production lines having reached approximately 86.0% and 85.6%, respectively, in FY2017, approximately 94.5% and 93.6%, respectively, in FY2018, and approximately 90.0% and 97.6%, respectively, in 6M2019, our ability to capture the increasing demands for OCTG and other oil pipes would be constrained without an increment in our production capacity. Taking into account our existing utilisation rate, the expected market growth and our strategy to capture further market shares by enhancing our sales to existing customers and new customers, our Directors are confident that the production capacity utilisation rate would remain high upon completion of Phase One Expansion and Phase Two Expansion.

There is no guarantee that any of our expansion plans will proceed as planned. Our Directors may determine in the future that postponing any part of our expansion plans is in the best interest of our Group after taking into account the prevailing market conditions, our financial resources and other relevant factors.

Following the relocation and consolidation of our production facilities to our Bohai New District Factory and the increase of our production capacity as described in this paragraph, we believe that we will be able to maximise our operational efficiency and to meet our business growth.

Further, the new intelligent production lines to be implemented in our Bohai New District Factory in Phase One Expansion Plan and Phase Two Expansion Plan with details set out in the paragraph headed "Business Strategies — To expand our production capacity" will also enhance our production efficiency and quality assurance in the long run. Provided that we have sufficient demand and we can operate at the scale above the breakeven point as mentioned in the paragraph headed "Payback period and breakeven points", our average unit cost for our products is expected to decrease as a result of the expected economies of scale and automation of our production facilities. Therefore, we expect that there will be a positive impact on our profitability following commencement of commercial production under Phase One Expansion and Phase Two Expansion.

We plan to finance the remaining capital expenditure for our Phase One Expansion with our internal resources and/or banking facilities, and the capital expenditure for our Phase Two Expansion with part of the net proceeds from the Global Offering, internal resources of our Group and/or bank facilities. Please refer to the section headed "Future Plans and Use of Proceeds" for details on our expected use of proceeds for our expansion plans.

Payback period and breakeven points

For reference and illustration purpose only, set forth below is a highly hypothetical analysis on the payback period and breakeven points in respect of our new production lines to be constructed under Phase One Expansion and Phase Two Expansion.

We consider that a new production line achieves breakeven when the revenue it generated is able to cover its costs and expenses arising in the same year on an accounting basis. The production scale required to achieve breakeven varies depending on various factors, including but not limited to general economic and market conditions, market demands, utilisation rate of our production lines, market competition and price of raw materials. We consider that a new production line achieves investment payback when the total future net cash flow generated from operating activities since the commencement of commercial production is able to cover the total investment amount. The time required to achieve investment payback varies depending on various factors, including those mentioned above and the capital expenditure such as costs of machinery and equipment.

Upon completion of Phase One Expansion, our OCTG production line and other oil pipes production line at our Bohai New District Factory have production capacity of 300,000 tonnes per annum and additional production capacity of 300,000 tonnes per annum, respectively. It is estimated that, based on our Directors' knowledge and experience, the payback period for the new production capacity under Phase One Expansion will be approximately 3.3 years and that breakeven could be achieved upon reaching the breakeven period of approximately 5.8 months, given the full utilisation of production capacity.

Upon completion of Phase Two Expansion, our OCTG production line, other oil pipes production line and pipe billets production line will have additional production capacity of 100,000 tonnes per annum, 500,000 tonnes per annum and 400,000 tonnes per annum, respectively. It is estimated that, based on our Directors' knowledge and experience, the payback period for the additional production capacity under Phase Two Expansion will be approximately 3.5 years and that breakeven could be achieved upon reaching the breakeven period of approximately 6.1 months, given the full utilization of production capacity.

PRODUCTION PROCESS

The following illustrates the major steps involved in the production of pipe billets, other oil pipes and OCTG:

Pipe billets production line

1. Preparation of raw materials and auxiliary materials and smelting

Scrap metal raw materials are added to EAF for smelting, dephosphorisation, chemicalreaction, deslagging and initial alloying.

↓

2. Refining and vacuum degassing

The molten steel will then be further processed to adjust the composition of the alloy accurately and for reduction reaction and deaeration.

↓

3. Continuous casting

The molten steel will then be casted into pipe billets through techniques such as shrouded casting, level control, rapid crystallisation, balanced cooling and front-end magnetic stirring.

↓

4. Quality check and storage

The pipe billets are then put into storage after slow cooling, refining and quality in spection.

Other oil pipes production line

1. Cutting and heating

Pipe billets are cut into the suitable length for heating to the specified temperature in the ring furnace.

↓

2. Piercing, rolling and slight-stretch reducing

The solid pipe billets are then made into oil pipes that meet specification requirements through with equipment such as vertical conical piercing machine, continuous rolling mill and slight-stretch reducer.

↓

3. Straightening and flaw inspection

A six-roller quick-opening straightener will then be used to straighten the oil pipes, which are then put through the processes of magnetic flux leakage inspection and ultrasonic flaw detection.

↓

4. Other oil pipes heat treatment

The oil pipe will be heated up by the walking beam quenching furnace and discharged when the required temperature has been reached. After quenching and drying, the steel pipes will be put through the walking beam tempering furnace to perform heating according to process curve, heat preservation, straightening, flaw detection, spray marking and warehousing inspection.

OCTG production line

1. Making screw threads on couplings

Coupling semi-finished products will be sent to the coupling workshop by robots for the making of screw threads on both ends. The couplings are then tested, marked and put through flaw detection with wet magnetic particle inspection. After the coupling threads are processed on the surface, the couplings will be put in storage.

↓

2. Wiring and screwing

After the other oil pipes have passed our quality check, wire machines are used to make screw threads on both ends. Couplings will be sent to the coupling screwing machine by robots for the screwing of the pipe together according to the process specifications.

↓

3. Pressure test, inspection and storage

A hydrostatic pressure test and a full-length path test will be carried out on the casing and tubing before a thread protector is installed by robot. Before they are packaged and delivered to the warehouse, length measurement, weighing, marking and anti-corrosion processes will be conducted thoroughly.

Delivery and Transportation

We generally deliver our products (namely OCTG, other oil pipes and pipe billets) directly to our customers' warehouses or their designated locations. The passing of both title and risks as to such products depends on the terms of the particular agreement. For domestic sales, title and risks of loss or damage as to our products are generally transferred to the customers once they confirm receipt of the products at their warehouses or when the products reach their designated locations. For overseas sales, our products are mainly sold on FOB basis. Under the FOB arrangement, title and risks of loss or damage of goods pass to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards.

CUSTOMERS

During the Track Record Period, our products were sold domestically in the PRC, as well as overseas to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea. We derived most of our revenue from our major customers in the PRC during the Track Record Period. Our customers in the PRC include members of one of the PRC Big-3 NOC, steel products, oil pipes and energy equipment manufacturers, OCTG manufacturers, OCTG processing factories and trading companies, and our overseas customers include distributor and trading companies during the Track Record Period. Our sales to overseas are conducted either directly or through distributors. Please refer to the paragraph headed "Overseas Sales" in this section for further details.

The following table sets forth a breakdown of our revenue by market during the years/periods indicated:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Domestic (the PRC)	667,550	89.3	2,186,639	96.0	2,831,305	91.5	1,308,158	96.0	1,336,726	92.6
Overseas: *(Note)*										
Oman	18,911	2.5	21,521	1.0	130,241	4.2	—	—	88,298	6.1
Others	61,406	8.2	68,714	3.0	133,277	4.3	54,791	4.0	18,976	1.3
	80,317	10.7	90,235	4.0	263,518	8.5	54,791	4.0	107,274	7.4
Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Note: During the Track Record Period, we had sold to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

Geographical Distribution

We primarily sell our products to domestic oil companies that are members of one of the PRC Big-3 NOC located in Daqing City, Hebei Province, Shaanxi Province and Xinjiang Uygur Autonomous Region as well as to the OCTG manufacturers, OCTG processing factories, trading companies and steel products, oil pipes and energy equipment manufacturers across the PRC.

Sales Model by Products and Customer Types

The following table sets forth a breakdown of our revenue derived from our respective markets, product types and major types of customers during the years/periods indicated:

		FY2016		FY2017		FY2018		6M2018		6M2019	
Domestic		*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Product type											
OCTG and other oil pipes	Members of the PRC Big-3 NOC (Note 1)	526,076	70.3	1,264,039	55.5	1,610,580	52.0	701,246	51.5	903,201	62.5
	OCTG manufacturers or processing factories	40,238	5.4	38,850	1.7	47,512	1.5	4,961	0.4	36,373	2.5
	Others (Note 2)	91,541	12.2	182,724	8.0	133,539	4.3	95,926	7.0	11,520	0.9
Pipe billets	Steel products, oil pipes and energy equipment manufacturers	9,695	1.3	701,026	30.8	1,039,674	33.6	506,026	37.1	385,631	26.7
Overseas											
Product type											
OCTG and other oil pipes	Overseas customers (Note 3)	80,317	10.7	90,235	4.0	263,518	8.5	54,791	4.0	107,274	7.4
	Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Notes:

1. During the three years ended 31 December 2018, we have only sold to the members of one of PRC Big-3 NOC. During 6M2019, we have sold to the members of one additional PRC Big-3 NOC, but the revenue attributable to such PRC Big-3 NOC was immaterial.

2. This mainly includes trading companies.

3. This includes customers in over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

Our domestic sales, which mainly comprise sales to members of one of the PRC Big-3 NOC, increased by approximately RMB1,519.1 million, or approximately 227.6%, from FY2016 to FY2017, mainly due to the increase in sales to members of one of the PRC Big-3 NOC and the sales of pipe billets in FY2017.

Domestic Sales

During each of FY2016, FY2017, FY2018 and 6M2019, our domestic sales accounted for approximately 89.3%, 96.0%, 91.5% and 92.6% of our total revenue, respectively. We maintain well-established relationships with a number of leading PRC oil companies. Please refer to the paragraph headed "Top Five Customers" in this section for further details.

We generally do not have long term purchase commitments from our domestic customers. Save for two long term strategic cooperation framework agreements and three consignment agreements with details set out below, we typically enter into sales contracts or sales orders with our other domestic customers that set out the terms and conditions for the specified orders, including pricing terms, specifications of our products to be provided, quantity and date of delivery. We typically grant our customers a credit period of within 90 days for our products and they usually make payment to us in RMB and such is typically settled by way of bank transfer or acceptance bills. We require advance payment from customers other than oil companies, except for Customer F, with whom we have long-standing business relationship.

Strategic cooperation framework agreement

During the Track Record Period, we had one subsisting legally binding long term strategic cooperation framework agreement with each of (i) one of our customers (the "**Strategic Customer**"), who is a member of one of the PRC Big-3 NOC; and (ii) Customer F, which is a steel production company incorporated in the PRC and listed on the Shanghai Stock Exchange. A summary of the material terms of such agreements is set out below.

Strategic cooperation framework agreement with our Strategic Customer

Product	:	Other oil pipes.
Term	:	Three years.
Obligation of the customer and our Group	:	The Strategic Customer shall place purchase orders of other oil pipes with us in the circumstances of the quality and pricing of our products are comparable with that of our competitors, and we shall give the Strategic Customer priority so as to ensure that our other oil pipes are provided to the Strategic Customer in a timely manner and on the most favourable terms.
Supply/purchase commitment	:	There is no supply or purchase commitment by either party.
Price adjustment provision	:	There is no price adjustment provision.
Termination	:	There is no termination clause.

During the Track Record Period, there was no material breach of the strategic cooperation framework agreement entered into between our Group and the Strategic Customer by either party.

Strategic cooperation framework agreement with Customer F

Product	:	Pipe billets
Term	:	Two years, renewable automatically unless otherwise agreed by the parties. The strategic cooperation framework agreement was first entered into in June 2015.
Obligations of Customer F and our Group	:	• We are a strategic supplier of pipe billets of Customer F and Customer F shall seek quotation of such products from us first and if pricing of our products are the same as other suppliers, Customer F shall procure such products from us instead of other suppliers. • We shall provide the most favourable or competitive pricing terms and give priority to purchase orders placed by Customer F in guaranteeing delivery date and resources. • Customer F and us shall also cooperate to develop new products, the intellectual property rights of which shall be shared equally amongst them. • We shall give Customer F priority so as to ensure that a daily quantity of 2,000 tonnes of the products could be delivered to Customer F as and when required. The types, specifications and quantities of the pipe billets to be supplied by us shall be set out in purchase contracts to be entered into between Supplier F and us within the last ten days of the preceding month. Should we be unable to make delivery pursuant to the terms of the purchase orders, we shall inform Supplier F at least one week in advance.
Supply/Purchase commitment	:	Neither party is committed to supply or purchase a minimum quantity of the goods.
Price adjustment provision	:	Prices shall be determined in accordance with the market rate at the most favourable scale. Should there be a fluctuation of the market price of more than 5%, the parties shall negotiation for a price adjustment in the following month.
Termination	:	Either party may terminate the strategic cooperation framework agreement by giving three months prior written notice to the other.

During the Track Record Period, there was no material breach of the strategic cooperation framework agreement entered into between our Group and Customer F by either party.

Consignment agreements

During the Track Record Period, we, as seller, had entered into legally binding consignment agreements with Customer A, Customer C and Customer D, each of whom are members of the PRC Big-3 NOC, as purchaser, for the consignment of OCTG. The revenue of our Group attributable to consignment arrangements with Customer A, Customer C and Customer D was approximately RMB357.9 million, RMB751.6 million, RMB875.8 million and RMB476.8 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively, representing approximately 47.9%, 33.0%, 28.3% and 33.0% respectively, of the total revenue of our Group for the corresponding years/periods. Our revenue from the sales of consignment stock is recognised upon the customer issuing an acceptance form to us confirming the quantities of OCTG used by them. During the Track Record Period, there was no return of unsold goods consigned to our customers' designated warehouses.

The use of consignment model was initiated by our customers in light of their internal policy to maintain certain level of inventory. In order to maintain our market share with sales to such customers, being members of one of the PRC Big-3 NOC, we have agreed to sell our OCTG to Customer A, Customer C and Customer D under a consignment model. As advised by CIC, the use of consignment model for the sale of OCTG to members of the PRC Big-3 NOC is in accordance with industry practice.

A summary of the major terms of the consignment agreements is set out below.

Product	:	OCTG
Term	:	Range from one to two years.
Supply amounts and delivery	:	We shall deliver to the customers' designated warehouses a specified quantity of OCTG, either at our costs or the costs of our customers.
Prices and Payment terms	:	Payments are settled monthly or pursuant to separate agreements of the parties, and are only made for the OCTG used by the customers. The prices are determined in the manner stipulated by one of the PRC Big-3 NOC, the details of which are set out in the paragraph headed "Customers — Pricing Policy" in this section.
Passing of risk and title	:	• We deliver OCTG to the customer's designated warehouses of our respective customers at our own risk. • In general, the OCTG are stored at the risks of the our customers, except for damages caused by force majeure events. • Title of the goods shall pass to the customers once they have been despatched from their designated warehouse.

Return of unsold goods	:	• Unsold goods will not be returned to us, or may be returned to us at our option and at our own costs.
Stock level	:	In general, there is no stipulated minimum stock level.
Rights and obligations of the parties over the consigned goods	:	• Upon delivery of the OCTG to our customers' designated warehouses, our customers shall be responsible for checking the goods to ensure they meet the required specifications and quality. • In general, our customers shall be responsible for monitoring the inventory level of the consigned OCTG and the record-keeping in relation to the goods upon storage.
Termination	:	In general, the consignment agreements may be terminated by the respective parties mutually in writing, upon the occurrence of force majeure events, or among others, the failure by us to deliver the specified quantity of the goods within the stipulated time or the failure by us to deliver goods that meet the required standard of quality.

During the Track Record Period, there was no material breach of the respective consignment agreements by us, Customer A, Customer C or Customer D.

We have the following internal control measures to monitor and verify the level of inventories held or consumed by our customers under the respective consignment agreements:

— After we received order forms from our customers, our sales centre shall enter the quantities ordered in our ERP system for the approval by our sales centre manager and general manager.

— With the approval from our quality management department and finance department, our logistics management department shall arrange delivery of the specified quantities of OCTG to our customer's designated warehouse. Once the goods have been despatched, our logistics management department will generated transfer order automatically in our ERP system. Our finance department will then make entry on our ERP system to indicate the goods are stored at external warehouses of our customers (with the title to the goods still belonging to us).

— When our customers pick up and use the OCTG from their warehouse, they will issue an acceptance form to us confirming the quantities used. At the end of each month, our sales centre would gather all acceptance forms from each customer and make corresponding entries of the amount receivable in our ERP system. Our finance department will then issue invoices to our customers in accordance with the records on our ERP system, while making entries in our ERP system to indicate the quantities of goods stored at our external warehouses that were sold.

— We have also established a consignment goods account, which updates real-time and which we check monthly following the on-site stock counts carried out at our customers' warehouses against the records in our EPR system. If deteriorated goods (such as OCTG which has become rusty or damaged) are identified during our on-site stock counts, staff from our sales centre will compile a list of such goods for examination by our technicians. Deteriorated goods which may be repaired or recycled will be passed to our production and manufacturing department, or if otherwise they will be disposed of following approval from our chairman has been obtained.

— According to our "Financial Management Procedure", at the end of each financial year, our finance department, together with our other departments, shall evaluate and analyse the net realisable value of our inventory (including the consigned goods at our customers' designated warehouse). For inventory with book costs higher than its net realisable value, provision will be made for its depreciation, following approval from our chief operating officer, general manager and chairman has been obtained.

Our sales to one of the PRC Big-3 NOC

PRC Big-3 NOC comprises CNPC, Sinopec and CNOOC, which are state-owned gas and oil corporations in the PRC and are amongst the only four oil companies in the PRC that hold certifications in oil and gas exploration and development. According to the CIC report, CNPC, Sinopec and CNOOC dominate the oil and gas industry in the PRC. One of the PRC Big-3 NOC, some members of which are our top five customers during the Track Record Period, accounts for over 50% of the market.

During the Track Record Period, we had sold to a total of 17 members of one of the PRC Big-3 NOC, all of which are under independent management as far as our Directors are aware. Our sales to such members of one of the PRC Big-3 NOC accounted for approximately 70.3%, 55.5%, 52.0% and 62.5% of our revenue in each of FY2016, FY2017, FY2018 and 6M2019, respectively. Although such members to which we sell our products to belong to the same group, our Directors consider that each of them is a distinctive and independent customer to our Group as, other than the pricing system with details set out in the paragraph headed "Customers — Pricing Policy" that is used by all members of the PRC Big-3 NOC, so far as they are aware, each of them has independent management and procurement departments. As such, each member of one of the PRC Big-3 NOC is considered by us as an independent customer and there is no concentration risk or reliance issue on one single customer. Our Directors consider that the sale to members of one of the PRC Big-3 NOC would allow us to maintain a stable demand for our products and reinforce our positive reputation in the market.

Overseas Sales

During the Track Record Period, we had sold to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea. During each of FY2016, FY2017, FY2018 and 6M2019, our overseas sales accounted for 10.7%, 4.0%, 8.5% and 7.4% of our total revenue, respectively. Amongst our overseas sales in each of FY2016, FY2017, FY2018 and 6M2019, approximately 66.4%, 73.4%, 100.0% and 100.0% of our sales were attributable to direct sales to overseas countries other than Iran, and 33.6%, 26.6%, nil and nil of our sales were attributable to sales through one distributor to Iran.

For our overseas sales, apart from our sales to Iran through distributors with whom we entered into distributorship agreements, we typically enter into sale and purchase agreements with our overseas customers that set out the general terms of our cooperation. We typically do not grant credit period to our overseas customers for our products and they usually make payment to us in USD, typically settled by way of bank transfers and letter of credit. We require advance payment from our overseas customers. During FY2016, FY2017 and FY2018, we had subsisting distributorship agreements with local distributors in Iran for the cooperative development of the OCTG and other oil pipes market in Iran.

During FY2016, FY2017 and FY2018, we had three subsisting distributorship agreements with two local distributors in Iran to cooperatively develop the line pipes market in Iran and the sales of OCTG and line pipes to the main oil and gas companies in Iran. Apart from the distributorship agreement under which our other oil pipes were sold to the distributor for reselling to end-customers in Iran, there were no sales under the two distributorship agreements for the joint development of the sales of OCTG and line pipes to the main oil and gas companies in Iran as the condition precedent of us being registered as a qualified supplier of the main oil and gas companies in Iran was not satisfied before the relevant distributorship agreements were terminated by the mutual agreements between the parties.

A summary of the major terms of the distributorship agreements entered into by us for the sales to Iran is set forth below:

Products	:	OCTG and/or other oil pipes
Term	:	Three years and shall be extended automatically if the minimum sales quantity could be met in each year.
Rights and obligations of the distributors	:	• Assist us to register, within a specified timeline, or maintain our qualification as a qualified supplier of the main Iran oil and gas companies. • Assist us to obtain project tenders and liaise between us and the end-customers to confirm technical details.

Rights and obligations of our Group	:	• Provide the necessary documents to the distributors for registration or renewal of our qualification as qualified supplier of Iran oil and gas companies. • Provide technical and commercial support to the distributors to obtain tenders. • We have the right to decide whether to submit the tender and/or to enter into the contracts after the tender has been obtained.
Prices, payment and credit terms	:	A commission equivalent to not more than 20% of the premium above the contract value was payable to the distributor.
Minimum purchase amounts	:	The distributors guarantee a minimum sales quantity for OCTG or other oil pipes during the period specified in the agreement. We are entitled to terminate the distributorship agreements if the distributors fail to secure at least 80% of the minimum sales quantities.
Exclusivity	:	The cooperation between us and each of the distributors is exclusive (or the distributorship agreement will become exclusive upon us having become a qualified supplier).
Liability for breaches	:	If we obtain a tender through the distributor and enter into contract directly with the end customer or any other parties without the written consent of the distributor, we shall compensate the distributor with an amount equal to 20% of the tender or contract value.
Termination	:	• If the distributor could not successfully assist us to register as a qualified supplier within the stipulated time, the distributorship agreement will be automatically terminated; • Either party has the right to terminate the agreement upon breaches of their respective obligations under the agreement by the other party, or by mutual agreement in writing.

As at the Latest Practicable Date, all distributorship agreements entered into between our Group and our Iranian distributors had been terminated.

Top Five Customers

For each of FY2016, FY2017, FY2018 and 6M2019, our five largest customers accounted for approximately 66.7%, 56.0%, 50.0% and 58.2% of our total revenue, respectively, and our largest customer accounted for approximately 35.8%, 21.7%, 15.5% and 16.2% of our total revenue, respectively.

The tables below set forth the details of our five largest customers during the Track Record Period:

FY2016

Five largest customers	Nature of the main business of the customer	Product sold	Scale of operation	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Revenue	Approximate percentage of our total revenue
							(RMB'000)	*(%)*
Customer A^	Oil and gas exploration and development	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 110,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	19 years	30–60 days	Bank transfer or acceptance bill	268,088	35.8
Customer B^	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 47,000 staff.	19 years	30–90 days	Bank transfer or acceptance bill	105,988	14.2
Customer C^	Exploration development, production and sales of oil and gas	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 70,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–60 days	Bank transfer or acceptance bill	49,792	6.7
Customer D^	Providing petroleum engineering technology and production service	OCTG and other oil pipes	An affiliate of a state-owned enterprise and a member of a listed group which has over 1,000 staff. It ranked within top ten in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–90 days	Bank transfer or acceptance bill	40,068	5.4
Customer E^	Providing petroleum engineering technology service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 300,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	10 years	30–90 days	Bank transfer or acceptance bill	34,344	4.6
Total:							**498,280**	**66.7**

Note: ^denotes the customer which is a member of one of the PRC Big-3 NOC. Each of these customers operates under independent management and procurement notwithstanding that these customers are affiliates with one another.

FY2017

Five largest customers	Nature of the main business of the customer	Product sold	Scale of operation	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Revenue	Approximate percentage of our total revenue
							(RMB'000)	*(%)*
Customer A^	Oil and gas exploration and development	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 110,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	19 years	30–60 days	Bank transfer or acceptance bill	494,990	21.7
Customer B^	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 47,000 staff.	19 years	30–90 days	Bank transfer or acceptance bill	294,476	12.9
Customer F	Iron and steel production and its related processing	Pipe billets	A corporation listed on the Shanghai Stock Exchange which has around 38,000 staff. One of the largest corporations in the PRC steel industry.	7 years	20 days	Bank transfer or acceptance bill	197,941	8.7
Customer G	Wholesale and retail of steel materials	Pipe billets and other oil pipes	A private corporation which has around 20 staff. In 2018, it sold approximately 80,000 tonnes of steel pipes and rods.	2 years	Advance payment	Bank transfer or acceptance bill	159,903	7.0
Customer D^	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 1,000 staff. It ranked within top ten in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–90 days	Bank transfer or acceptance bill	129,930	5.7
Total:							**1,277,240**	**56.0**

Note: ^ denotes the customer which is a member of one of the PRC Big-3 NOC. Each of these customers operates under independent management and procurement notwithstanding that these customers are affiliates with one another.

FY2018

Five largest customers	Nature of the main business of the customer	Product sold	Scale of operation	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Revenue	Approximate percentage of our total revenue
							(RMB'000)	*(%)*
Customer Aˆ	Oil and gas exploration and development	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 110,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	19 years	30–60 days	Bank transfer or acceptance bill	479,256	15.5
Customer Bˆ	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 47,000 staff.	19 years	30–90 days	Bank transfer or acceptance bill	353,732	11.4
Customer F	Iron and steel production and its related processing	Pipe billets	A corporation listed on the Shanghai Stock Exchange which has around 38,000 staff. One of the largest corporations in the PRC steel industry.	7 years	20 days	Bank transfer or acceptance bill	319,080	10.3
Customer Dˆ	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 1,000 staff. It ranked within top ten in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–90 days	Bank transfer or acceptance bill	216,868	7.0
Customer Cˆ	Exploration, development, production and sales of oil and gas	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 70,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–60 days	Bank transfer or acceptance bill	179,685	5.8
Total:							**1,548,621**	**50.0**

Note: ˆ denotes the customer which is a member of one of the PRC Big-3 NOC. Each of these customers operates under independent management and procurement notwithstanding that these customers are affiliates with one another.

6M2019

Five largest customers	Nature of the main business of the customer	Product sold	Scale of operation	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Revenue	Approximate percentage of our total revenue
							(RMB'000)	*(%)*
Customer A^	Oil and gas exploration and development	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 110,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	19 years	30–60 days	Bank transfer or acceptance bill	233,427	16.2
Customer B^	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 47,000 staff.	19 years	30–90 days	Bank transfer or acceptance bill	200,230	13.9
Customer F	Iron and steel production and its related processing	Pipe billets	A corporation listed on the Shanghai Stock Exchange which has around 38,000 staff. One of the largest corporations in the PRC steel industry.	7 years	20 days	Bank transfer or acceptance bill	163,590	11.3
Customer D^	Providing petroleum engineering technology and production service	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 1,000 staff. It ranked within top ten in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–90 days	Bank transfer or acceptance bill	134,511	9.3
Customer C^	Exploration, development, production and sales of oil and gas	OCTG	An affiliate of a state-owned enterprise and a member of a listed group which has over 70,000 staff. It ranked within top five in terms of oil-gas valent weight in the PRC in 2017.	16 years	30–60 days	Bank transfer or acceptance bill	108,850	7.5
							840,608	58.2

Note: ^ denotes the customer which is a member of one of the PRC Big-3 NOC. Each of these customers operates under independent management and procurement notwithstanding that these customers are affiliates with one another.

During the Track Record Period, all of our five largest customers were Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any Shareholder who owned more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our five largest customers during the Track Record Period.

During the Track Record Period, we did not experience any bad and doubtful debts or disputes with our customers that would have had a material impact on our business, financial condition or results of operations.

Pricing Policy

We have a comprehensive product pricing system which focuses on the differentiation of users and products, the pricing of our competitors and market share. For our domestic sales to customers other than members of one of the PRC Big-3 NOC, we generally adopt a market-oriented pricing approach to ensure the competitiveness of our products in pricing. We set prices based on the acceptability by our customers and potential customers on one hand and our profitability on the other hand, considering a number of factors including the costs of raw material, purchase quantities, production complexity, billing cycle, market prices, acceptability of the prices by our customers and our relationship with the customers. For the sales of OCTG and other oil pipes to these customers, prices are also determined with reference to the price lists published on the online platform of one of the PRC Big-3 NOC as discussed below.

For our domestic sales of OCTG and other oil pipes to the members of one of the PRC Big-3 NOC, we shall negotiate with such PRC Big-3 NOC to arrive at an agreed price list for our products during the first quarter of each year or when new products are being introduced by us, and such agreed price list will be applicable to all members of such PRC Big-3 NOC. Prices on the price list are determined with reference to, mainly, the costs of raw materials, market prices, competitiveness of our prices and market conditions. Once a price list has been agreed upon, it will be displayed on an online platform operated by such PRC Big-3 NOC. Members of such PRC Big-3 NOC will be able to check our price list alongside that of the other market players on the online platform. The price list is generally valid for a period of one year unless and until it is replaced by a revised price list to be negotiated between us and such PRC Big-3 NOC if there are material fluctuations in the prices of the raw materials or change in market conditions.

OCTG and other oil pipes we sell to overseas are customised products in general. Each of purchase orders from our overseas customers are priced having considered the technical and production requirements. Pricing of the products we sell to our overseas customers is subject to review by our finance department.

Seasonality

Our Directors believe the nature of our business does not exhibit any significant seasonality trend on an annual basis. According to the CIC Report, this is consistent with the industry norm.

SALES AND MARKETING

Sales and Marketing Team

Our sales centre is responsible for the sales and marketing of our products and maintaining relationship with our customers. As at 30 June 2019, we had 34 members in our sales centre. Our sales centre is sub-divided into the (i) core customer sales team mainly responsible for the sales of OCTG, other oil pipes and energy equipment materials in the PRC; (ii) domestic market sales team mainly responsible for the sales of pipe billets and other oil pipes in the PRC and the procuring of new customers principally located in the Eastern and Northern regions of the PRC; and (iii) overseas market sales team mainly responsible for the sales of OCTG and other oil pipes to the overseas. During the Track Record Period, some of our overseas customers were introduced to us by agents who received commission calculated based on sales volume.

Our marketing strategy is designed to focus on enhancing user satisfaction and user perception, with an aim to develop a more comprehensive product series for OCTG and other oil pipes and to establish a positive reputation through brand building and delivering high quality products to explore new sectors and develop new markets. Our group has adopted a comprehensive budget management system whereby the finance department will set sales targets according to the budget target of the year. Each salesman has a sales target for the particular month and he or she is subject to weekly review with their supervisor. In addition to the sales scheme as described in the foregoing, we have also adopted individual incentive policies for each marketing and sales team member to provide incentive to the salesmen according to their performance.

Customer services

It is part of our full production chain business model to make ourselves available to all our customers at different stages of the contracts with them, from pre-order to post-delivery. We have customer services team to provide post-delivery services such as handling complaints, attending goods inspection at delivery and providing construction guidance services and technical support. In general, we provide 12 to 24 months of warranty for our products to our customers in the quality of the products provided by us, including OCTG which we purchased from our OCTG suppliers. Our Directors believe that effective customer services could help us to maintain strong business relationships with our customers and distinguish us from our competitors.

SUPPLIERS

The principal raw materials we use for our production are scrap metal, which we source within the PRC. Under certain circumstances, we may also purchase OCTG for sale to our customers from suppliers who are Independent Third Parties. For further details of the OCTG which we purchase from our suppliers, please refer to the paragraph headed "Our Business Model" in this section.

Supply Agreements

We generally enter into legally binding supply agreements with our suppliers of scrap metal. A summary of the major terms of the supply agreements of scrap metal is set forth below:

Term	:	One year in general.
Product specification	:	A description of the products, quantity and technical specifications (if any) is set out in the agreements.
Pricing	:	Determined by us in accordance with the market condition.
Minimum supply amounts	:	Generally, a supply quantity per month or per day is set out in the agreement.
Delivery	:	Products are generally delivered by the suppliers at their own risks and costs.
Payment terms and credit period	:	In general, we have to make payment upon goods are accepted. In some circumstances, we are granted credit period of approximately 30 days by our major suppliers. We usually settle payments with our suppliers by bank transfer.
Termination	:	The scrap metal supply agreements generally do not contain any termination clause.

We do not enter into long-term contracts with our OCTG suppliers. We enter into purchase contracts with our OCTG suppliers as and when necessary. Key terms of the purchase orders include the exact quantity, price, size specifications, payment and delivery time.

During the Track Record Period, there was no material breach of the scrap metal supply agreements or OCTG purchase contracts by the parties. We maintain good relationships with our suppliers and have not experienced any significant quality or fulfillment issues with our suppliers nor any material shortage or delay in the supply scrap metal or OCTG during the Track Record Period. During the Track Record Period, we had no disputes with our suppliers that would have had a material impact on our business, financial condition or results of operations.

Since there are a number of suppliers of scrap metal in the PRC, our Directors consider that it is feasible to engage alternative suppliers of scrap metal for our Group and we do not have any reliance on our suppliers for scrap metal. As for the OCTG which we purchased from our suppliers, since our OCTG production capacity will be increased following Phase One Expansion and it is anticipated that most of our customers' demands for our OCTG products will be satisfied by our increased OCTG production capacity at our Bohai New District Factory, and the purchases of OCTG from these suppliers in FY2018 and 6M2019 represented only approximately 17.0% and 13.9%, respectively, of our total purchase cost during FY2018 and 6M2019, our Directors consider that we do not rely on our suppliers for OCTG.

The prices of scrap metal and OCTG we purchase from our suppliers are with reference to the prevailing market prices at the time of purchase orders. As the prices of scrap metal and OCTG which we purchase from our suppliers may rise, and whether we could pass the effect of fluctuations in such purchase costs to our customers depends on the market supply and demand of our products and the actual extent of the cost fluctuations. In the event that we are not be able to effectively pass on the effect of cost fluctuations to our customers, our Group's operations and financial performance may be adversely affected.

Selection of our suppliers

We generally select and include new scrap metal suppliers into our approved list of suppliers as and when necessary having considered factors such as such suppliers' supply capability and quality. We from time to time set the proposed unit purchase price of scrap metal based on the prevailing market price of scrap metal, and invite offers from approved suppliers for supply of scrap metal to us at such unit purchase price. In selecting suppliers for the other auxiliary materials, we generally compare their respective pricing, quality of products, delivery time, previous experience and reputation of the potential suppliers. When we select our OCTG suppliers, we take into account the geographical locations, products quality and qualification of the suppliers. Our Group maintains an approved list of suppliers, which is reviewed periodically in accordance with the quality control procedures.

Top Five Suppliers

For each of FY2016, FY2017, FY2018 and 6M2019, our five largest suppliers accounted for approximately 78.1%, 63.7%, 40.5% and 65.4% of our total purchase costs, and our largest supplier accounted for approximately 36.7%, 28.7%, 9.2% and 21.2% of our total purchase costs, respectively.

The tables below set forth the details of our five largest suppliers during the Track Record Period:

FY2016

Supplier	Nature of the main business of the supplier	Product purchased	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Purchase cost	Approximate percentage of our total purchase costs
						(RMB'000)	*(%)*
Supplier A	Production and sales of steel pipes and oil pipes	OCTG	3 years *(Note 1)*	30 days	Bank transfer or acceptance bill	174,182	36.7
Supplier B Group *(Note 2)*	Steel products production	Pipe billets and cast iron *(Note 3)*	5 years	Payment upon delivery	Bank transfer or acceptance bill	123,110	25.9
Supplier C	Recycling of scrap metal and other waste materials	Scrap metal	2 years	Payment upon delivery and acceptance	Bank transfer	27,980	5.9

Supplier	Nature of the main business of the supplier	Product purchased	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Purchase cost	Approximate percentage of our total purchase costs
						(RMB'000)	*(%)*
Supplier D	Trading of rolled steel, cement furnace burden, water heating pipes, and agricultural and sideline products	Pipe billets *(Note 3)*	4 years	30 days	Bank transfer or acceptance bill	26,322	5.5
Supplier E	Trading of rolled steel, building materials, hardware and electrical equipment, industrial and mineral products and non-ferrous metals	Other oil pipes *(Note 3)*	5 years	Advance payment	Bank transfer or acceptance bill	19,306	4.1
					Total:	**370,900**	**78.1**

Notes:

1. Our business relationship with Supplier A had ceased as at the Latest Practicable Date.

2. During the Track Record Period, we purchased from Supplier B Group comprising Supplier B and its subsidiary, all of which were incorporated in the PRC. Cast iron was a type of raw material we used in the production of pipe billets alongside scrap metal. Cast iron was no longer used as our raw materials since 2017.

3. In FY2016, we made purchase of pipe billets from Supplier B Group and Supplier D as the supply of electricity was unstable and the production at our pipe billet production facilities was disrupted, and we made purchase of other oil pipes from Suppler E to meet our ad hoc production needs for OCTG pending full integration of the other oil pipes production line into our Group.

FY2017

Supplier	Nature of the main business of the supplier	Product purchased	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Purchase cost	Approximate percentage of our total purchase costs
						(RMB'000)	*(%)*
Supplier A	Production and sales of steel pipes and oil pipes	OCTG	3 years *(Note 1)*	30 days	Bank transfer or acceptance bill	370,115	28.7
Supplier F	Recycling of scrap metal and other waste materials	Scrap metal	2 years	Payment upon delivery and acceptance	Bank transfer	151,738	11.8
Supplier G	Recycling of scrap metal and other waste materials	Scrap metal	3 years	Payment upon delivery and acceptance	Bank transfer	121,140	9.4
Supplier C	Recycling of scrap metal and other waste materials	Scrap metal	2 years	Payment upon delivery and acceptance	Bank transfer	105,805	8.2
Supplier H	Recycling of scrap metal and other waste materials	Scrap metal	2 years	Payment upon delivery and acceptance	Bank transfer	72,266	5.6
					Total:	**821,064**	**63.7**

Note:

1. Our business relationship with Supplier A had ceased as at the Latest Practicable Date.

FY2018

Supplier	Nature of the main business of the supplier	Product purchased	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Purchase cost	Approximate percentage of our total purchase costs
						(RMB'000)	*(%)*
Supplier A *(Note 2)*	Production and sales of steel pipes and oil pipes	OCTG	3 years *(Note 1)*	30 days	Bank transfer or acceptance bill	184,549	9.2
Supplier I	Recycling of scrap metal and other waste materials	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	183,877	9.2
Supplier J	Recycling of scrap metal and other waste materials and wholesale and retail if coal, steel, etc.	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	166,742	8.4
Supplier K *(Note 2)*	Production and sales of steel pipes and oil pipes	OCTG	4 years	30 days	Bank transfer	150,954	7.6
Supplier L	Recycling of scrap metal and other waste materials	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	122,346	6.1
					Total:	**808,468**	**40.5**

Notes:

1. Our business relationship with Supplier A had ceased as at the Latest Practicable Date.

2. The largest shareholder holding over 50% of the equity interest in each of Supplier A and Supplier K are spouses at the material time when the transactions took place.

6M2019

Supplier	Nature of the main business of the supplier	Product purchased	Approximate length of relationship with us up to the Latest Practicable Date	Credit terms	Payment method	Purchase cost	Approximate percentage of our total purchase costs
						(RMB'000)	*(%)*
Supplier M	Recycling of scrap metal and other waste materials	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	192,183	21.2
Supplier N	Recycling of scrap metal and other waste materials	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	133,294	14.7
Supplier K	Production and sales of steel pipes and oil pipes	OCTG and couplings	4 years	30 days	Bank transfer	126,981	14.0
Supplier O	Recycling of scrap metal and other waste materials	Scrap metal	1 year	Payment upon delivery and acceptance	Bank transfer	79,462	8.8
Supplier P	Recycling of scrap metal and other waste materials	Scrap Metal	Less than 1 year	Payment upon delivery and acceptance	Bank transfer	60,868	6.7
					Total:	**592,788**	**65.4**

Our business relationship with Supplier A was originated in second half of 2015 through the largest shareholder holding over 50% of the equity interest in Supplier K (the "**Ultimate Controller**"). We first become acquainted with the Ultimate Controller who is the husband of the largest shareholder holding over 50% of the equity interest in Supplier A, in 2014 when we purchased OCTG from Supplier K. Supplier K was incorporated in the PRC in November 2009 and principally engaged in the production and sales of steel pipes and oil pipes. To the best of our Directors' knowledge, Supplier K's then major customer was an OCTG manufacturer in Wuxi, the PRC, the products of which was supplied to oil company in Northeast China. Supplier A was established in January 2015 under the direction of the Ultimate Controller through his wife as part of his business expansion plan and his plan to strengthen the then existing business relationship with our Group. In view of such plans, the Ultimate Controller approached the Group in around early 2015 for the possible cooperation with the Group through Supplier A, which was established for cooperation with us. Despite Supplier A had a short history at the material time when we first place orders given its nature as an entity established for cooperation with the Group, we have decided to purchase OCTG from Supplier A after taking into consideration the geographical location of Supplier A and that Supplier A would be managed by the same management team as Supplier K, given the proven track record of Supplier K and the experience of the management team of Supplier K in terms of the production quality and capability in manufacturing OCTG that could meet our Group's needs. Following the Ultimate Controller has approached us and presented to us of his intention to cooperate with us through Supplier A, our Group needed to ensure that Supplier A's production facilities and capabilities, management resources and production quality were of satisfactory standards before we would actually place orders with it. As such, there was a period of time between the incorporation date of Supplier A and the date of the first order placed by us with Supplier A when we performed on-site assessment of Supplier A's production facilities. For each of the three years ended 31 December 2018, our purchase from Supplier A amounted to approximately RMB174.2 million, RMB370.1 million, RMB184.6 million, respectively, contributing a substantial portion of the revenue of Supplier A for each of the three years solely based on information provided by Supplier A. In preparation of the Listing and with the view that our Company may become a listed public company, the Directors considered the continuing trading with Supplier A whose previous name having a high degree of resemblance with that of our Group may expose our Group to incorrect perception that our Group was associated with Supplier A. As such, our Group ceased to conduct business with Supplier A in August 2018, and our purchases of OCTG were made solely from Supplier K since September 2018 instead. During such period in FY2018 and 6M2019, our purchase of OCTG from Supplier K amounted to approximately RMB151.0 million and RMB125.8 million, respectively, representing approximately 7.6% and 13.9% of our total purchase costs in FY2018 and 6M2019, respectively, and contributed to a substantial portion of the revenue of Supplier K for each of FY2018 and 6M2019 solely based on information provided by Supplier K. As informed by the Ultimate Controller, Supplier A has been deregistered after merging with Supplier K in May 2019.

To the best knowledge, information and belief of our Directors having made all reasonable enquiries, save for the business relationship with us as disclosed above, Supplier A and Supplier K do not have any relationship, whether past or present, including but without limitation to business, employment, financing or family relationship, with our Group, Directors, Shareholders or senior management, or any of their respective associates.

For details of the purchases of OCTG from Supplier A and Supplier K during the Track Record Period, please refer to the paragraph headed "Our Business Model" in this section.

During the Track Record Period, all of the five largest suppliers were Independent Third Parties. To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any Shareholder who owned more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period.

Major Suppliers Who Are Also Our Customers

In FY2016, Supplier A was one of our five largest suppliers from whom we purchased OCTG and the purchase costs attributable to Supplier A were approximately RMB174.2 million, accounting for approximately 36.7% of our total purchase costs. During the same year, Supplier A was also one of our customers to whom we sold other oil pipes for their internal production use and our revenue attributable to the sales of other oil pipes to Supplier A was approximately RMB2.8 million, accounting for approximately 0.4% of our total revenue and resulting in an insignificant gross loss from the sale.

In each of FY2018 and 6M2019, Supplier K was one of our five largest suppliers from whom we purchased OCTG and the purchase costs attributable to Supplier K were approximately RMB151.0 million and RMB125.8 million respectively, accounting for approximately 7.6% and 13.9% of our total purchase costs. During the corresponding year/period, Supplier K was also one of our customers to whom we sold other oil pipes for their internal production use and our revenue attributable to the sales of other oil pipes to Supplier K was approximately RMB3.9 million and RMB9.4 million, accounting for approximately 0.1% and 0.7% of our total revenue and contributing to an immaterial gross profit to our Group.

For details of the reason for the purchase of OCTG from Supplier A and Supplier K, please refer to the paragraph headed "Business model" in this section. Save for Supplier A and Supplier K, none of our five largest suppliers during the Track Record Period were our customers.

Inventory Management

Our inventories include raw materials, auxiliary material, spare parts, goods in progress and finished good. We monitor our inventory with an established internal inventory management policy and also carry out monthly, semi-annual and annual audits of our inventory. Pursuant to the internal inventory management policy, we aim to keep inventory levels low, ensure quick inventory turnover and monitor the market conditions for the inventory.

For each of FY2016, FY2017, FY2018 and 6M2019, approximately 5.8%, 12.8%, 14.7% and 4.1% of our inventories were stored at the warehouses of Customer A, Customer C and Customer D were pursuant to the respective consignment agreements. Please refer to the paragraph headed "Customers — Domestic Sales — Consignment agreements" in this section for details.

QUALITY CONTROL

Our quality management system has been accredited with the ISO9000 series of certifications since 1999 and the API Specification 5CT product certification since 2001 for the production of certain specifications of casing, tubing and plain-end pipes and our Gaoxin District branch office quality management system has been accredited with the API Specification 5CT product certification for casing, tubing and plain-end pipes and API Specification 5L product certification since 2007 and the TS certification for certain specifications and models of pressure seamless steel pipes since 2009.

We also have an in-house testing centre that is equipped with advanced inspection and testing instruments, LIMS system and MES system, to undertake the testing of, among others, certain parameter of metal and alloy, certain macrostructure, certain metal and products (mechanical property) including impact testing, rockwell hardness testing, certain metal and products (microstructure) and transformation point test for metal and products (physical properties). Inspection results could be delivered to our production system to allow us to make prompt adjustment to our products if necessary. To ensure the quality of the OCTG which we purchase from our suppliers, we conduct sample checks during the production processes at our suppliers' production facilities and carry out periodic quality check on the OCTG supplied.

Since December 2014, our testing centre has been accredited with ISO/IEC 17025:2005 General Requirements for the Competency of Testing and Calibration Laboratories (CNAS-CL01 Accreditation Criteria for the Competency of Testing and Calibration Laboratories) by CNAS to undertake the testing of, among others, certain parameter of metal and alloy, certain macrostructure, certain metal and products (mechanical property) including impact testing, rockwell hardness testing, certain metal and products (microstructure), including metal grain size analysis, macrostructure testing, and transformation point test for metal and products (physical properties).

The key equipment in our testing laboratory is set out below:

Equipment name	Purpose of equipment	Country of origin
Optical emission spectrometer (直讀光譜儀)	Testing content of various chemical elements	Japan
Optical emission spectrometer (直讀光譜儀)	Testing content of various chemical elements	Germany
Spectroscope (光譜儀)	Testing chemical content of various elements	Italy
Infrared carbon sulfur analyser (紅外碳硫分析儀)	Testing carbon sulfur content	The PRC
XRF analyser (X熒光分析儀)	Testing Si, Mn and P content in supplementary materials	The PRC

Equipment name	Purpose of equipment	Country of origin
Hydraulic universal testing machine (液壓式萬能試驗機)	Testing tensile strength, yield strength and anti-crush resistance	The PRC
Micro-computer display hydraulic universal testing machine (微機屏顯液壓萬能試驗機)	Testing tensile strength, yield strength and anti-crush resistance	The PRC
Micro-computer controlled electrohydraulic server universal testing machine (微機控制電液伺服萬能試驗機)	Testing tensile strength, yield strength and anti-crush resistance	The PRC
Metallic pendulum impact testing machine (金屬擺錘衝擊試驗機)	Impact testing	The PRC
Digital Vickers hardness tester (數顯維氏硬度計)	Vickers hardness testing	The PRC
Metallurgical microscope (金相顯微鏡)	Inspecting components of metallurgical samples	Japan
Slag viscometer (爐渣粘度測試儀)	Testing viscosity of slags containing calcium fluoride	The PRC
Slag melting temperature testing machine (爐渣熔化溫度特性測試儀)	Inspecting components of metallurgical samples	The PRC
Thermal expansion instrument (熱膨脹相變儀)	Identifying transformation rules of organisms	Germany
Scanning electronic microscope (掃描電鏡)	Inspection of organism surface and conducting macro-fracture analysis	Germany
Metallurgical microscope (金相顯微鏡)	Inspecting components of metallurgical samples	Germany

As at 30 June 2019, we had 62 members in our quality management department. Our quality management department is led by the deputy chief engineer of our Group. Our quality control department follows a set of comprehensive quality control procedures for production, supply and subcontracting. Such procedures ensure quality is maintained throughout procurement, production to after-sales by setting out, amongst other, the responsibilities of each department, work procedures, record keeping requirements for each of procurement, production, supply and warehousing.

Procurement

We typically procure raw materials from suppliers who have passed our quality and reliability assessment. We carefully select our suppliers based on a set of strict criteria to ensure the products and/or services procured meet our standard. Please refer to the paragraph headed "Suppliers" in this section for further details. We conduct random sample test on incoming raw materials upon taking delivery of the goods.

Production

At every checkpoint stages on our production lines, our quality control team conducts periodic tests and inspections of semi-finished and finished products in accordance with our internal quality control procedures. These tests are intended to ensure that our products meet the quality standards and compliance requirements of both us and our customers at each stage of the production process. Our quality control team prepares quality analysis reports on a monthly basis that are submitted to our senior management as well as the relevant production team to maintain or refine our production processes as necessary.

During the Track Record Period, we did not have any material quality issues in respect of products delivered to our customers that would have had a material impact on our business, financial condition or results of operations.

Warehousing

Our finished products are first packaged and stored at our warehouses before being transported and delivered. Finished products are stored in designated zones within our warehouses according to type and production date. Additionally, we take safety measures to minimise fire hazards, water damage, clashing and other similar risks to our products.

QUALIFICATIONS AND STANDARDS

The following table sets out a summary of our main qualifications and standards for carrying out our business in the PRC:

Issuing authority/ organisation	Description	Qualification/Licence/ Grading	Date of first grant/ registration	Date of expiry
American Petroleum Institute	API Monogram and the manufacturing and processing of casing and tubing or line pipes	API Specification 5CT-0526	27 October 2016	29 January 2020
American Petroleum Institute	API Monogram and the manufacturing and processing plain-end pipes	API Specification 5CT-0854	21 December 2017	15 January 2020
American Petroleum Institute	API Monogram and the manufacturing and processing of line pipes	API Specification 5L-0630	21 December 2017	15 January 2020
China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會)	Laboratory Accreditation Certificate	Accredited with ISO/IEC 17025:2005 General Requirements for the Competence of Testing and Calibration Laboratories	31 December 2014	30 December 2023
General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)	Manufacture Licence of Special Equipment (特種設備製造許可證)	Licensed to manufacture grade A1, A2(1) and B(2) pressure pipes and seamless steel pipes	23 August 2017	22 August 2021
China Classification Society Certification Company (中國船級社質量認証公司)	Quality management system for the production of certain specifications of OCTG and the manufacture of seamless steel pipes and pipe billets	ISO 9001:2015	27 May 2017	10 June 2020
Hebei Provincial Administration of Quality and Technical Supervision* (河北省技術監督局)	Certificate for industrial product execution standard (河北省工業產品執行標準證書)	N/A	20 June 1999	N/A
State Administration of Work Safety of Hebei Province* (河北省安全生產監督管理局)	Work Safety Standardisation Certification (安全生產標準化證書)	Grade two enterprise (machinery)	22 March 2016	March 2019 *(Note)*
Beijing CNPC Audit Company Limited (北京中油認證有限公司)	Occupational Health & Safety Management System (OHSMS) Certificate (職業健康安全管理體系認證證書)	Conformity with the requirements of GB/ T28001-2011 (OHSAS18001:2007, IDT)	3 February 2008	30 January 2020

Issuing authority/ organisation	Description	Qualification/Licence/ Grading	Date of first grant/ registration	Date of expiry
Beijing CNPC Audit Company Limited (北京中油認證有限公司)	Environmental Management Systems Certificate (環境管理體系認證證書)	GB/T24001-2016 (ISO14001:2015, IDT)	3 February 2008	30 January 2020
Beijing CNPC Audit Company Limited (北京中油認證有限公司)	Conformity with the requirements of CNPC HSE Management Systems (健康安全環境管理體系認證證書)	Q/SY1002.1-2013 and SY/T6276-2014	3 February 2008	30 January 2020

Note: Following the assessment by an evaluation body approved by the State Administration of Work Safety of Hebei Province* (河北省安全生產監察管理局), the Company was certified to meet the standard for work safety (grade two) in March 2019. As at the Latest Practicable Date, we were in the course of renewing the Work Safety Standardisation Certificate. As advised by our PRC Legal Advisers, we do not foresee any legal impediments in renewing such certificate.

AWARDS AND RECOGNITIONS

Since the establishment of our Group, we have been granted a number of awards and recognitions from government authorities with respect to our Group or products. The major awards and recognitions are set out below:

Year	Awards or recognitions	Awarding organisation
2006 to 2007	High-tech Enterprise Certificate* (高新技術企業認定證書)	Hebei Provincial Department of Science and Technology (河北省科學技術廳)
2006	Technological Innovation Best Ten Enterprise* (科技創新"十佳"示範企業)	Cangzhou Science and Technology Bureau* (滄州市科技局)
2007	Hebei Province Small and Medium Enterprise Technology Innovation Demonstration Enterprise* (河北省中小企業技術創新示範企業)	Hebei Province Small and Medium Enterprise Bureau* (河北省中小企業局)
2007	Contract Abiding and Trustworthy Unit (守合同重信用單位)	Hebei Administration for Industry and Commerce (河北省工商行政管理局)
2008	Provincial Workers' Home* (省模範職工之家)	Hebei General Trade Union* (河北省總工會)
2009	Product Quality Trustworthy* (質量信得過產品)	Hebei Province Small and Medium Enterprise Bureau* (河北省中小企業局)
2008	China Top Ten Brands in Casing Production Industry* (中國套管產業十大著名品牌)	China Market Monitoring Centre* (中國市場監測中心) and China Market Research Centre* (中國市場研究中心)
2009	Hebei Province Small and Medium Size Well-known Brand*	Hebei Province Small and Medium Enterprise Bureau

Year	Awards or recognitions	Awarding organisation
2009 to 2018	High-tech Enterprise* (高新技術企業)	Hebei Provincial Department of Science and Technology (河北省科學技術廳), Hebei Provincial Department of Finance* (河北省財務廳), Hebei Provincial State State Taxation Bureau* (河北省國家税務局) and Hebei Provincial Local Taxation Bureau* (河北省地方税務)
2010	China Quality and Integrity Enterprise* (中國質量誠信企業)	China Entry — Exit Inspection and Quarantine Association (中國出入境檢驗檢疫協會)
2012	Hebei Province Trustworthy Enterprise (河北省誠信企業)	Hebei Province Honest Enterprise Selection Committee* (河北省誠信企業評選委員會)
2015	Safe Production Integrity Grade A (安全生產誠信A級)	Hebei Provincial Safety Production Committee (Hebei Provincial Safety Production Committee)
2015	Technology-based SMEs* (科技型中小企業)	Hebei Province Science and Technology Bureau* (河北省科學技術廳)
2015	Well-known Trademark of Hebei* (河北省著名商標企業)	Hebei Administration for Industry and Commerce Bureau* (河北省工商行政管理局)
2016	Hebei Province Science and Technology Achievement Certificate* (河北省科學科技成果證書)	Hebei Provincial Department of Science and Technology* (河北省科學技術廳)
2017	Intellectual Property Advantage Unit* (知識產權優勢單位)	Cangzhou Science and Technology Bureau* (滄州市科技局)
2018	Hebei Province Excellent Private Enterprise (河北省優秀民營企業)	Hebei Province Privately Owned Enterprise Economic Leadership Group* (河北省民營企業經濟領導小組)
2018	Intellectual Property Management System Certificate* (知識產權管理體系認證證書)	Zhongzhi (Beijing) Certification Co., Ltd* 中知(北京)認證有限公司
2019	Measurement Management System Certificate (測量管理體系認證證書)	China Certification Centre for Metrology and Measurement (中啟計量體系認證中心)

MARKET AND COMPETITION

According to the CIC Report, the market size of the OCTG industry as measured by sales value in the PRC is expected to increase from RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, representing a CAGR of 5.6%. Notwithstanding our competitive strengths as set out in the paragraph headed "Competitive Strengths" in this section, we operate in a competitive environment:

Approximate market size of all OCTG manufacturers in the PRC in terms of sales value of OCTG in 2018	RMB16,065.3 million
Approximate market share of the top five private-owned OCTG manufacturers based on the sales value of OCTG in 2018	32.7%
Approximate market share of our Group based on our OCTG sales value in FY2018	9.6%

Source: CIC

The OCTG market in the PRC is highly concentrated and the top ten OCTG manufacturers account for over 80% of the market share. We compete with our rivals generally in terms of, among others, our long-standing track record, well-established reputation in the industry, integrated industrial value chain, high level of automation in our production facilities, product quality, comprehensive technical, research and service capabilities. If we lose out our competitive strengths or if the competition in the market intensifies, our revenue and profitability may be materially and adversely affected.

Please also refer to the paragraph headed "Competitive Strengths" in this section and the section headed "Industry Overview" for further information regarding the competitive landscape of the industry.

RESEARCH AND DEVELOPMENT

We have established our own R&D institute in Cangzhou City, Hebei Province, the PRC which has been certified as Hebei Enterprise Technology Centre* (河北省企業技術中心) in May 2016 and Grade A of R&D Institutions of Industrial Enterprises with Designated Size in Hebei Province* (河北省規模以上工業企業研發機構A級) in September 2017.

In order to maintain our competitiveness within the industry, we place strong emphasis on R&D to introduce new products to cater for our customers' needs, expand our product range, keep ourselves abreast of the latest developments in technology, and to improve our existing products. In 2016, we established our own R&D institute in Cangzhou City, Hebei Province to develop oil pipe products. Our R&D institute has a total gross floor area of approximately 5,000 sq.m. and is equipped with advanced trial production, production and testing facilities. Our R&D institute had received the following certifications:

Issuing authority/organisation	Certification	Year of certification
Science and Technology Department of Hebei Province (河北省科學技術廳)	Hebei OCTG Engineering Technology Research Centre (河北省石油專用管工程技術研究中心)	2016
Hebei Development and Reform Commission* (河北省發展和改革委員會)	Hebei Enterprise Technology Center* (河北省企業技術中心)	2017
Industry and Information Technology Department of Hebei Province	Grade A of R&D Institutions of Industrial Enterprises with Designated Size in Hebei Province* (河北省規模以上工業企業研發機構A級)	2017

Our in-house testing laboratory, which was set up in 1998 and accredited by CNAS, is equipped with precise and advanced R&D devices, including ZEISS field emission scanning electronic microscope, Linseis expansion instrument, ZEISS metallurgical microscope, SHIMADZU XRF analyser, Spectro optical emission spectrometer, LECO Oxygen/Nitrogen/Hydrogen analyser, etc., providing solid support for product research and development. The laboratory is qualified to undertake the testing of, among others, certain parameter of metal and alloy, certain macrostructure, certain metal and products (mechanical property) including impact testing, rockwell hardness testing, certain metal and products (microstructure), including metal grain size analysis, macrostructure testing, and transformation point test for metal and products (physical properties). It also collaborates with external laboratories to conduct anti-crushing tests, anti-hydrogen sulfide erosion tests and anti-hydrogen induced cracking tests and can provide prompt and accurate testing data for new product research and development.

As at 30 June 2019, our R&D institute had 74 members, comprising seven external experts, all the staff in our technology centre and some of our staff in our quality management department, production and manufacturing department and some members in our senior management. All members of our R&D institute have received tertiary education and some of them have as well obtained master or doctoral degrees. Our R&D institute is led by experienced engineers who possess expertise in different areas including metal materials, material molding, mechanical engineering, materials analysis and non-destructive testing. Our R&D institute is mainly responsible for our Group's product development, skill development and enhancement and facilities improvement. Based on our sound technical knowledge and innovations, we have amongst others, successfully manufactured high performance oil pipes that have better mechanical properties and/or greater resistance to atmospheric corrosion than conventional carbon steels, developed high efficiency clean smelting technology for all scrap steel and developed gas-tight special thread joint. As at the Latest Practicable Date, we had successfully developed a significant intellectual property portfolio, comprising 47 registered patents and 26 patents pending registration. We registered 43 patents in relation to oil pipes production machineries and methods. Please refer to the section headed "Appendix V — Statutory and General Information — Further Information About the Business of our Group — 11. Intellectual property rights of our Group" for further details.

Our technological expertise and in-depth industry knowledge is well-recognised in the industry nationally. Since 2009, Dalipal Pipe has been recognised as a High Tech Enterprise (高新技術企業) by Hebei Provincial Department of Science and Technology* (河北省科學技術廳), Hebei Provincial Department of Finance* (河北省財務廳), Hebei Provincial State State Taxation Bureau* (河北省國家稅務局) and Hebei Provincial Local Taxation Bureau* (河北省地方稅務) jointly.

R&D Collaborations

We also collaborate with entities in the gas and oil industry to work on product development projects from time to time.

Previous key R&D collaborations

We previously had the following key collaborations on R&D:

- In May 2012, we entered into a technology development cooperation agreement with Northeastern University (東北大學) in the PRC on product development and pipe billets production optimisation. Pursuant to the agreement, we were responsible for, amongst others, providing the necessary facilities and data required in the production process and to participate in the research laboratory works of Northeastern University in the PRC. Technological achievements produced as a result shall be held by the parties jointly. As a result of the cooperation, Northeast University and our Group jointly published two dissertations on the subjects of "Design of Transformer for Ultra-High-Power Electric Arc Furnace" (《超高功率電弧爐變壓器的設計》) and "Optimisation of electromagnetic stirring parameters for round billet continuous casting molds" (《圓坯結晶器電磁攪拌工藝參數優化》).

- In November 2014, we entered into an agreement with the oil pipes research institute of one of the PRC Big-3 NOC on special air-tight screw threads conversion promotion and evaluation test in an oilfield in the PRC, whereby, the oil pipes research institute was principally responsible for the design and development of air-tight screw, product standard and the provision of technical support to issues arising out of the processing and application of the screw pipe joints, whereas we were responsible for the technique transformation fees and the related research fee incurred in the testing and evaluation of the products. The intellectual property rights generated as a result of the research shall be jointly owned by the parties. As at the Latest Practicable Date, the oil pipes research institute and our Group jointly held four patents which were developed as a result of the research.

Current R&D collaborations

We currently have collaboration on R&D with CSG Smart Science & Technology Co. Ltd* (科大智能科技股份有限公司) to (i) jointly develop and promote various systems, such as the seamless steel pipes defects identification system and the heat rolling seamless pipes length and outer diameter online measurement system; (ii) jointly develop products, such as intelligent petroleum pipes and intelligent oilfield drilling equipment, and to utilise online technology to follow up with the technical status throughout the use process of the products; (iii) cooperate in the development of intelligent production lines. The collaboration shall be for a term of two years to September 2020. Intellectual property rights in the software and systems jointly developed shall be co-owned by the parties; whereas proposals which the parties produced independently shall belong to the individual party. During the cooperation period, the parties shall be responsible for its own profits and losses.

We currently also have collaboration on R&D with Xi'an University of Architecture and Technology (西安建築科技大學) for the (i) joint development of high-strength and high-toughness oil pipes, high anti-crushing series of oil pipes, corrosion-resistant series of oil pipes, high temperature-resistant series of oil pipes; and (ii) research and application of recycling and utilisation of dust ash resources.

For each of FY2016, FY2017, FY2018 and 6M2019, our R&D expenses amounted to approximately RMB14.4 million, RMB18.4 million, RMB23.3 million and RMB12.4 million, respectively.

INTELLECTUAL PROPERTY

Please refer to the section headed "Appendix V — Statutory and General Information — Further Information About the Business of our Group — 11. Intellectual property rights of our Group" for details of the material intellectual property rights owned by our Group.

We rely primarily on intellectual property laws and contractual arrangements with our employees, customers and other parties to protect our intellectual property rights. Our employees are required to enter into supplement agreements to their employment contracts where they are required to keep confidential the information relating to our intellectual property and trade secrets. Intellectual property rights associated with the technological achievements developed by our employees during the course of their employment with our Group belong to us.

While we actively take steps to protect our proprietary rights, such measures may not be adequate to prevent the infringement or misappropriation of our intellectual property rights. Infringement or misappropriation of our intellectual property rights could materially harm our business. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Failure to protect our brand and our intellectual property rights may materially and adversely affect our reputation, competitive position and operations and we may be exposed to infringement or misappropriation claims by third parties" for further details.

As at the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights.

EMPLOYEES

Number of Employees

As at 30 June 2019, we had a total of 1,739 full-time employees based in the PRC. The following sets forth the number of our employees in the respective function as at 30 June 2019:

	Number of employees
Sales centre	34
Production and manufacturing department	1,259
Operation management department	19
Logistics management department	206
Quality management department	62
Technology centre	50
Corporate administration and other back office staff	92
Finance department	17
Total	1,739

Note: As at 30 June 2019, our R&D institute had 74 members, comprising seven external experts, all staff in our technology centre and some of our staff in our quality management department, production and manufacturing department and some members of our senior management.

Recruitment Policies

We recruit our staff on an open market in accordance with our recruitment management system which sets out the principles and procedures upon which employees should be selected. We endeavor to attract and retain appropriate and suitable personnel to grow with our Group. We enter into employment contracts with our employees in accordance with relevant laws and regulations in the PRC. Our departments may submit requests for additional human resources to the human resources department for their assessment and approval with our executive Directors. Our human resources department also reviews the policies and procedures on hiring of staff, training and performance appraisals.

Remuneration

We offer remuneration to our employees commensurate with their position, seniority and performance in accordance with our employee remuneration management guidelines. For our marketing and sales staff, we have also adopted individual incentive policies to remunerate them according to their performance.

Our total staff costs amounted to approximately RMB63.8 million, RMB91.9 million, RMB144.0 million and RMB80.4 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively.

Training

Our employees received training depending on their roles and the scope of works. Our human resources department, technical centre and quality management and other relevant departments are responsible for organising and providing the relevant training to our employees in order to enhance their skills. Trainings are provided at the time when the employees are recruited as well as on a continuous basis. The trainings provided by us cover, include but without limitation, quality control knowledge and practical techniques training.

Welfare or Mandatory Contributions

Save as disclosed in the paragraph headed "Non-Compliance" in this section, we have complied with the applicable labour laws and regulations in all material respects in respect of statutory welfare or mandatory contributions required of us as an employer in the PRC where we had business operations during the Track Record Period and up to the Latest Practicable Date. Please refer to the section headed "Regulatory Overview — Regulations Relating to Labour and Social Security" for further details on applicable labour laws and regulations of the PRC.

Labour Union

We have labour union established for our employees pursuant to the applicable labour law in the PRC. During the Track Record Period, there was no incidence of work stoppages, labour disputes, litigation, claims, administrative action or arbitration relating to labour disputes that would have had a material impact on our business, financial condition or results of operations.

OCCUPATIONAL HEALTH AND SAFETY

We are committed to providing a safe and healthy working environment to our employees. We have a set of comprehensive environmental, health and workplace safety policy being implemented and administered by the occupational health and safety environment protection committee, comprising of our general manager, safety director, manager representatives, responsible person in each department and manufacture department. Measures to ensure workplace safety include providing safety training to workers, encouraging the use of protection equipment and risks identification and assessment. Apart from preventative measures, we have also adopted a set of emergency plans for accidents inflicted during production process. All our workers are strongly encouraged to observe health and safety measures adopted by our Group from time to time.

We treat our workers' safety as a matter of the highest priority. We recorded one, one, one and nil work related accidents for each of FY2016, FY2017, FY2018 and 6M2019. Compensation for the work related injury in each of FY2016, FY2017, FY2018 and 6M2019 was settled by insurance. We had received recognition from the governmental bodies for our safety production. Please refer to the paragraph headed "Qualifications and Standards" for further details. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any accidents in our operations that would have had a material impact on our business, financial condition or results of operations.

During the Track Record Period and up to the Latest Practicable Date, we had complied with applicable standards in relation to health and workplace safety laws and regulations in the PRC in all material respects.

INSURANCE

Based on our experience, we believe that we have maintained insurance coverage that is necessary and sufficient for our operations and in line with the normal commercial and customary practice in the industry in which we operate. In particular, we maintain insurance for some of our assets, including production facilities, machinery and equipment.

We generally do not maintain product liability insurance as it is not a statutory requirement under the relevant PRC law. Please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — We may not maintain sufficient insurance coverage for the risks associated with our business operations" for further details.

We had one employee work related injury insurance claim made and settled in each of FY2016, FY2017 and FY2018. There was no employee work related injury insurance claim made during 6M2019. Save as disclosed in this paragraph, we had not experienced any insurance claims from third parties nor did we make any insurance claims against third parties that would have a material impact on our business, financial condition or results of operations during the Track Record Period and up to the Latest Practicable Date. Please refer to the paragraph headed "Occupational Health and Safety" in this section for details of the abovementioned work related injury insurance claim.

ENVIRONMENT

Our production operations with production facilities in the PRC are subject to the environmental protection laws and regulations and rules in the PRC. Please refer to the section headed "Regulatory Overview — Regulations Relating to Environment Protection" for further details on applicable environmental laws and regulations of the PRC.

During our production process, pollutants such as sulfur dioxide, nitrogen oxides, waste mineral oil, dust and ash are discharged and may cause air pollution. Besides, sounds made by our production facilities may also cause noise pollution in our neighbourhood. To minimise the negative impact brought upon the environment by us, we have installed dust and smoke removal systems, and have carried out annual environmental protection risk identifications.

During each of FY2016, FY2017, FY2018 and 6M2019, we had incurred costs of approximately nil, RMB130,000, RMB209,000 and nil, respectively, for processing and/or disposal of such waste in compliance with the applicable PRC environmental laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we had complied with applicable environmental laws and regulations in the PRC in all material respects.

PROPERTIES

Our headquarters is located in Cangzhou, Hebei Province, the PRC. As at the Latest Practicable Date, we owned properties in Hebei Province, the PRC, with (i) an aggregate gross floor area of approximately 390,897.4 sq.m. used as our production facilities, offices, dormitories and warehouses; and (ii) lands with an aggregate site area of approximately 463,961.9 sq. m. held for future development by our Group for Phase Two Expansion at our Bohai New District Factory. Please refer to the property valuation report as set out in Appendix III to this prospectus for further details.

Pursuant to the plans of the local government of Cangzhou City of the PRC to implement measures in relocating manufacturing enterprises from the urban area for environmental protection purpose, we were informed by the local government that Dalipal Pipe has been included in the list of manufacturing enterprises to which such relocation plans apply. We expect to surrender the lands and buildings on which our production and warehouse facilities are situated in accordance with such relocation plans. As such, we have closed down our Xinhua District Factory after the completion of the relocation of our existing OCTG production line and the commencement of commercial production of our new OCTG production line at our Bohai New District Factory, and we will close down our Gaoxin District Factory after the commencement of commercial production of the other oil pipes production facilities at Phase Two Expansion. Please refer to the paragraph headed "Production — Production Expansion Plan" in this section for further information about our production expansion plan.

Pursuant to the Notice from the Office of the Cangzhou People's Government Regarding the Issue of the Implementation Regulations relating to the Urban Retreat, Relocation and Transformation Works of Industrial Enterprises in Cangzhou City* (滄州市人民政府辦公室關於印發滄州市城鎮工業企業退城搬遷改造工作實施細則的通知) issued by the Office of the Cangzhou People's Government on 11 September 2017, in relocating our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse and surrendering the related lands and buildings, we expect to receive payments from local government authorities covering (i) land and building resumption compensation in respect of the lands and buildings so resumed; (ii) relocation allowance; (iii) compensation for suspension of operation; and (iv) relocation incentive for completing the relocation with the prescribed timeframe. In addition, our Group may also be entitled to special incentive subsidies in respect of our establishment of new production facilities after relocation. Following discussion with local government authority, it is expected that the land resumption will take place progressively. In particular, we have entered into a formal land resumption compensation agreement for the first parcel of land with total site area of approximately 66,700 sq.m. at which our Xinhua District Factory was situated ("**Xinhua Land**") with the relevant government authority in September 2019. Pursuant to such agreement we will receive land resumption compensation and the related payments as mentioned above in the amount of approximately RMB205.6 million. Pursuant to the agreement, the payment of the land resumption compensation and related payments will be made in two installments. The first installment of RMB150.0 million has been paid to us shortly after the execution of the agreement and the second installment for the remaining amount of approximately RMB55.6 million will be paid within five business days after the keys to the relevant properties have been provided to the relevant government authority. We had completed the relocation of our production facilities at our Xinhua District Factory and the title certificates of the Xinhua Land had been surrendered to the relevant government authority. The remaining part of the land of our Xinhua District Factory with a total site area of approximately 12,300 sq. m., on which our former office building was located and which does not affect the overall relocation plans of the local government of Cangzhou City of the PRC, will be retained by us. It is expected that we may further be paid an incentive subsidy upon the relevant government authority has sold the respective land. However, we were unable to ascertain the amount of the incentive subsidy and the timing of payment as at the Latest Practicable Date. For the resumption of the remaining part of the land with total site area of approximately 111,700 sq.m. on which our Xinhua District Warehouse is located, we were still pending for the relevant government authority to inform us as to the expected timeframe and the compensation and subsidy payment terms as at the Latest Practicable Date.

Lack of building ownership certificates

As at the Latest Practicable Date, we had not obtained building ownership certificates for our Cangzhou Offices, which comprise four office units and have a total gross floor area of approximately 1,700.0 sq.m.. Our PRC Legal Advisers advised that, notwithstanding the lack of building ownership certificates, we are entitled to occupy, use, lease or otherwise dispose of the relevant properties but such properties will not be able to be accepted by banks as security for mortgages until proper building ownership certificate are granted. Our Directors confirm that there is no difference in the cost our Group would have to pay if the properties did not have defective titles.

The property developer of the building of our Cangzhou Offices holds proper building certificates for such entire building. However, as the property developer has not applied with the government authorities of the PRC for subdivision of the units within the building (including the units in which our Cangzhou Offices are situated), we were unable to obtain building ownership certificates for our Cangzhou Offices. As at the Latest Practicable Date, we understand that the property developer is in discussion with the relevant government authorities of the PRC for the subdivision of the units within the building. As such, we do not have a concrete timeframe for obtaining the building ownership certificates for our Cangzhou Office. Our Directors consider that there will not be any legal impediment for obtaining the building ownership certificates once the property developer has completed the subdivision. As advised by our PRC Legal Advisers, we are not in breach of any PRC laws and regulations, and therefore the relevant government authority in the PRC will not impose any penalties on us or order us to relocate from these office units.

Our Directors are of the view that the buildings with defective titles are not individually or collectively crucial to our operation as the buildings with defective titles are not used for manufacturing purposes and are only used for administrative purposes. As there have not been any material safety incidents directly attributable to the safety condition of our Cangzhou Offices, we are of the view that the office units which we have not obtained building ownership certificates are safe to use in all material aspects.

Leased properties

We have leased the following property in Hong Kong:

Location	Approximate gross floor area	Lease expiring	Usage
	(square feet)		
Unit 02, 10th Floor Beautiful Group Tower 77 Connaught Road Central Hong Kong	1,530	26 February 2021	Office

LICENCES AND PERMITS

As advised by our PRC Legal Advisers, we have obtained all necessary licences, permits, approvals and certificates required to carry out our operations in the PRC and such licences, permits, approvals and certificates are valid and subsisting. Details of our material licences and permits as at the Latest Practicable Date are as follows:

Name of our subsidiaries	Relevant licences/permits	Date of grant	Expiry date	Whether renewal is required	Status of renewal (if applicable)
Dalipal Pipe	Sewage Permit	August 2019	September 2020	Yes	Renewed
Dalipal Pipe	Sewage Permit	August 2017	August 2020	Yes	Renewed
Dalipal Gaoxin Branch	Sewage Permit	March 2019	March 2022	Yes	Renewed

Please refer to the section headed "Regulatory Overview — Policies Relating to Foreign Investment in the Petroleum Pipeline Industry" for further details of the major laws and regulations applicable to our principal operations in the PRC. Nevertheless, there is no assurance that such laws and regulations in the PRC will not change in the future.

LITIGATION

As at the Latest Practicable Date, we had not engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our business, financial condition or results of operations.

NON-COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, our business operations had complied with all applicable laws, rules and regulations in material respects save for the incidents of non-compliance as follows:

Our subsidiary involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Cause(s) of non-compliant incidents
Dalipal Pipe	Dalipal Pipe was required to obtain the construction project commencement permit (建築工程施工許可證) (the "**Construction Commencement Permit**") before the commencement of building construction. Dalipal Pipe has not obtained the Construction Commencement Permits for certain buildings with an aggregate gross floor area of approximately 49,323.1 sq.m. located in our Bohai New District Factory before the relevant construction works commenced during the Track Record Period.	Pursuant to the relevant PRC laws and regulations, the relevant urban and rural planning administrative authority and construction administrative authority may (i) order to discontinue construction; (ii) order to make rectification within a time limit; (iii) may impose a fine between 1% and 2% of the total contractual price of the construction work (工程合同價款). The maximum amount of fine that may be imposed on our Group is estimated to be approximately RMB1.4 million.	Dalipal Pipe has obtained the Construction Commencement Permit for all such buildings by February 2019.	We have delegated Ms. Xu, our executive Director and chief legal officer of our Group, to oversee compliance in relation to future building construction works of our Group. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to Construction Commencement Permit) under the PRC laws and regulations or for any future building construction works of our Group, from time to time, as and when needed.	No penalty or order for demolishment of buildings or structures of such buildings had ever been imposed by/received from the relevant administrative authority prior to obtaining the Construction Commencement Permit for such buildings by Dalipal Pipe. As confirmed by our PRC Legal Advisers, the Cangzhou Bohai New District City Management Bureau* (滄州渤海新區城市管理局) as a competent authority confirmed that no punishment will be imposed on Dalipal Pipe. Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Company, subject to the terms of the Deed of Indemnity, in respect of all penalties which may be imposed on our Group for the historical non-compliances on or before the Listing Date. Please refer to the section headed "Appendix V — Statutory and General Information — Other Information — 18. Estate duty, tax and other indemnity" for further details. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC was delegated in ensuring compliance in this regard.	The omission was primarily due to our staff's lack of professional knowledge of the relevant legal requirements.

Our subsidiary involved	Non-compliant incidents	Legal consequences and maximum potential penalty	Remedial actions	Measures in place to prevent recurrence of the non-compliant incidents	Potential operational and financial impacts	Director(s)/senior management involved in the non-compliant incidents	Cause(s) of non-compliant incidents
Dalipal Pipe	During the Track Record Period, Dalipal Pipe commenced use prior to passing the acceptance checks for completed construction project (建築工程竣工驗收) for certain buildings with an aggregate gross floor area of approximately 31,918.7 sq. m. located in our Bohai New District Factory.	Pursuant to the relevant PRC laws and regulations, the relevant administrative authority may (i) order to take a remedial action; (ii) may impose a fine between 2% and 4% of the construction work (工程合同價款); (iii) order to compensate for any loss resulting therefrom. The maximum fine that may be imposed on our Group is estimated to be approximately RMB1.9 million.	Dalipal Pipe has obtained the approval for completed construction project for all such buildings by February 2019.	We have delegated Ms. Xu, our executive Director and chief legal officer of our Group, to oversee compliance in relation to future building construction works of our Group. We will also engage an external PRC legal adviser to provide training/advice to our Board and other relevant staff of our Group on the latest development of various compliance requirements (including matters in relation to approval for completed construction project) under the PRC laws and regulations or for any future building construction works of our Group, from time to time, as and when needed.	No penalty or order suspension of operations or use of facilities of such buildings had been imposed by/received from the relevant administrative authority prior to obtaining the approval for completed construction project for all such buildings by Dalipal Pipe. As confirmed by our PRC Legal Advisers, the Cangzhou Bohai New District City Management Bureau* (滄州渤海新區城市管理局) as a competent authority confirmed that no punishment will be imposed on Dalipal Pipe. Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Company, subject to the terms of the Deed of Indemnity, in respect of all penalties which may be imposed on our Group for the historical non-compliances on or before the Listing Date. Please refer to the section headed "Appendix V — Statutory and General Information — Other Information — 18. Estate duty, tax and other indemnity" for further details. Accordingly, no provision in our financial statements is considered necessary.	None. Our staff in the PRC was delegated in ensuring compliance in this regard.	The omission was primarily due to our staff's lack of professional knowledge of the relevant legal requirements.

INTERNAL CONTROL PROCEDURES AND INTERNAL CONTROL MEASURES TO PREVENT RECURRENCE OF NON-COMPLIANCE INCIDENTS

In order to continuously enhance our corporate governance and to prevent recurrence of the non-compliant incidents as set out in the paragraph headed "Non-Compliance" in this section, we intend to adopt or have adopted the following measures:

(i) we engaged an internal control adviser in October 2018 to review our risk management and internal control system of our Group and that we have established procedures, systems and controls (including accounting and management systems). Based on the findings, recommendations, action plans proposed and testing results of the work performed by the internal control adviser, our Directors consider that our internal control system is adequate and sufficient;

(ii) we have maintained a list of certificates, licences, permits and procedures that are required in order for us to use lands and construct buildings and will update this list when the relevant laws and regulations have changed based on requirements of the local authorities and advice given to us by our external legal adviser from time to time;

(iii) training were provided by our PRC Legal Advisers to our executive Directors and other responsible staff of our Group with respect to applicable PRC laws and regulations regarding major PRC laws and regulatory requirements for building constructions;

(iv) our Directors and senior management have attended training conducted by our Hong Kong legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under certain applicable Hong Kong laws and regulations, including the Listing Rules prior to the Listing;

(v) we will engage appropriate external legal advisers and/or institutions and/or consultants to advise, update the knowledge of and/or provide trainings to our Directors, senior management and/or relevant employees on the relevant laws and regulations, including changes thereto, which may affect our business operations;

(vi) when necessary, we will engage external professionals, such as auditors, internal control adviser, external legal advisor(s) and other advisors to render professional advice as to compliance with statutory and regulatory requirements, as applicable to our Group from time to time;

(vii) we have appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to ensure that, among other things, we are properly guided and advised as to compliance with the Listing Rules; and

(viii) our audit committee, comprising three independent non-executive Directors, continuously provides our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group and oversees the audit process and performs other duties and responsibilities as assigned by our Directors.

Views of our Directors and the Sole Sponsor

In light of the preventive measures mentioned above, our Directors and the Sole Sponsor are of the view that our Group has adequate and effective internal control procedures in place.

Having considered the facts and circumstances relating to the non-compliance incidents as disclosed in this section, with no financial impact on our Group and with our Group's internal control measures to avoid recurrence of these non compliances, our Directors and the Sole Sponsor are of the view that these past non-compliant incidents do not affect either our Company's suitability for Listing under Rule 8.04 of the Listing Rules or our Directors' suitability to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules since our Directors were not involved in these incidents which therefore involved no dishonesty on their part and did not impugn on their integrity or competence.

BUSINESS ACTIVITIES IN COUNTRIES SUBJECT TO INTERNATIONAL SANCTIONS

During the past five years, the Group has entered into the following U.S. dollar-denominated transactions in relation to Iran:

- 11 separate payments received by our operating subsidiary Dalipal Pipe in 2016 and 2017 relating to sales of its non-U.S. origin oil pipes to one distributor in Iran for further on-sale to its end-user customers in Iran totaling US$3,252,677.41; and

- three separate payments made by our operating subsidiary Dalipal Trading in 2015 totaling US$590,000 for the benefit of two sales agents that facilitated the entry in 2014 by Dalipal Pipe into a contract in 2014 for direct sales of oil pipes with a total value of EUR5,550,654.08 to an Iranian entity that is listed on OFAC's SDN List under the IRAN program.

As advised by our International Sanctions Legal Advisers, such transactions appear to be violations of U.S. primary sanctions laws. We had filed a VSD covering such apparent violations and had cooperated fully with the U.S. government in resolving this matter. On 2 April 2019, OFAC issued a cautionary letter to Dalipal Pipe which, as advised by our International Sanctions Legal Advisers, represents a final enforcement response to the apparent violations disclosed in the VSD.

During the Track Record Period, we had also engaged in the following non-U.S. dollar denominated sales and deliveries of oil pipes products to Iran, a comprehensively sanctioned country, which sales and deliveries were Transactions subject to Secondary Sanctions Exposure:

- certain oil pipes sales, which involve an Iranian entity that is listed on OFAC's SDN List;

- one letter of credit issued in June 2014 with a total value of EUR7,777,658.90 in favour of our bank account at the Bank of Kunlun. The letter of credit was issued by an Iranian entity that is listed on OFAC's SDN List under the instructions of the customer in the oil pipe sales; and

- one performance guarantee provided by the Bank of Kunlun in favour of one sales agent in November 2014 of up to EUR553,959.63 to secure the performance of the Group's oil pipe delivery obligations under the oil pipe sales.

Our International Sanctions Legal Advisers advised that the above transactions are subject to U.S. secondary sanctions exposure. In general, U.S. secondary sanctions exposure includes the risk of being designated as an SDN, as well as the risk of being subject to other restrictive measures including but not limited to a visa ban, prohibition on importing into the United States, and prohibition on receiving U.S. dollar denominated loans above US$10 million. As advised by our International Sanctions Legal Advisers, the VSD does not cover the Transactions subject to Secondary Sanctions Exposure.

However, as further advised by our International Sanctions Legal Advisers, considering (i) the historical nature and limited materiality of these Transactions subject to Secondary Sanctions Exposure; (ii) the business relationships we engaged in with the parties in the Transaction do not appear to be sufficiently material to warrant a designation by U.S. authorities; (iii) our active cooperation with OFAC; and (iv) that we have ceased all business transactions with Iran, there does not appear to be a significant degree of likelihood that OFAC would pursue restrictive actions against our Group under secondary U.S. sanctions at this time.

Please refer to the sections headed "Risk Factors — Risk Relating to Our Business and Industry — We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, Australia and other relevant sanctions authorities." and "We have during the Track Record Period engaged in sales and deliveries of oil pipe products to comprehensively sanctioned countries; as a result, we could be subject to liabilities associated with secondary sanctions violations" for further details.

Our internal control procedures

Commencing from June 2018, all of our sales transactions relating to Iran had been completed. Further, with the exception of the Bank of Kunlun which has been listed as a non-SDN on the Part 561 List, we have no present intention to undertake any future business with persons on the SDN Lists, any business connected to any comprehensively sanctioned countries, or any other business that may expose us to sanctions risks. Furthermore, in our future dealing with customers in Countries subject to International Sanctions of any kind, we will implement internal control measures to minimise our risk exposure to international sanctions.

As an entity listed as a non-SDN on the Part 561 List, no U.S. dollar transactions may be undertaken with Bank of Kunlun. Accordingly, with respect to the Bank of Kunlun, we intend to continue to:

- maintain certain non-U.S. dollar bank accounts with the Bank of Kunlun;

- designate our non-U.S. dollar bank accounts maintained with the Bank of Kunlun to be the payment-receiving accounts only for non-U.S. dollar payments from our customers in the PRC which are not listed on any SDN Lists; and

- instruct and arrange with the Bank of Kunlun in our ordinary course of business to provide performance security (including any performance guarantees or bonds) that are not denominated in U.S. dollars for the benefit of our customers or their agents in the PRC provided such customers and their agents are not listed on any SDN Lists.

As advised by our International Sanctions Legal Advisers, our intended dealings with the Bank of Kunlun have not violated any International Sanctions laws, and provided that we continue to transact with the Bank of Kunlun in the limited manner described above, will not violate any International Sanctions laws.

We will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Countries subject to International Sanctions or any other government, individual or entity sanctioned by the U.S., the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions. Further, we will not use the proceeds from the Global Offering to pay any damages for terminating or transferring any contract that violates International Sanctions.

In addition, we will not to enter into any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders and investors to violate or become a target of sanctions laws by the U.S., the European Union, the United Nations or Australia. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Countries subject to International Sanctions or with Sanctioned Persons would put our Group or our Shareholders and investors to risks of being sanctioned, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business, if any, in Countries subject to International Sanctions and with Sanctioned Persons and our business intention relating to Countries subject to International Sanctions and with Sanctioned Persons.

We have adopted enhanced internal control and risk management measures to help us continuously monitor and evaluate our business and take measures to protect the interest of our Group and our Shareholders from economic sanctions risks. The following measures have been implemented as at the Latest Practicable Date:

- to further enhance our existing internal risk management functions, our Board has established a risk management committee. The members of such committee comprise of at least three members and comprising a majority of the independent non-executive Directors, and their responsibilities include, among other things, monitoring our exposure to sanctions risks and our implementation of the related internal control procedures. Our risk management committee will hold at least two meetings each year to monitor our exposure to sanctions risks;

- we will evaluate the sanctions risks prior to determining whether we should embark on any business opportunities in Countries subject to International Sanctions and with Sanctioned Persons. According to our internal control procedures, the risk management committee needs to review and approve all relevant business transaction documentation from customers or potential customers from Countries subject to International Sanctions and with Sanctioned Persons. In particular, the risk management committee will review the information (such as identity and nature of business as well as its ownership) relating to the counterparty to the contract along with the draft business transaction documentation. The risk management committee will check the counterparty against the various lists of restricted parties and countries maintained by the United States, the European Union, the United Nations or Australia, including, without limitation, any government, individual or entity that is the subject of any OFAC-administered sanctions which lists are publicly available, and determine whether the counterparty is, or is owned or controlled by, a person located in Countries subject to International Sanctions or a Sanctioned Person. If any potential sanctions risk is identified, we will seek advice from reputable external international legal counsel with necessary expertise and experience in International Sanctions matters;

- the risk management committee will periodically review our internal control policies and procedures with respect to sanctions matters. As and when the risk management committee considers necessary, we will retain external international legal counsel with necessary expertise and experience in sanctions matters for recommendations and advice;

- if necessary, external international legal counsel will provide training programs relating to the sanctions to our Directors, our senior management and other relevant personnel to assist them in evaluating the potential sanctions risks in our daily operations. Our external international legal counsel will provide current list of Countries subject to International Sanctions and Sanctioned Persons to our Directors, senior management and other relevant personnel, who will in turn disseminate such information throughout our domestic operations and overseas offices and branches; and

- in respect of our intended dealings with the Bank of Kunlun, we will ensure that such dealings will be restricted to dealings with customers or their agents in the PRC that are not listed in any SDN Lists and will ensure that such dealings do not involve U.S. nexus (including but not limited to U.S. dollars or U.S.-origin goods or services).

Our International Sanctions Legal Advisers have reviewed and evaluated these internal control measures and are of the view that these measures are adequate and effective for the Company.

Having taken the above advice of our International Sanctions Legal Advisers into account, our Directors are of the view that our measures provide a reasonably adequate and effective internal control framework to assist us in identifying and monitoring any material risk relating to sanctions laws so as to protect the interests of our Shareholders and us. After undertaking the relevant due diligence, and subject to the full implementation and enforcement of such measures, the Sole Sponsor is of the view that these measures will provide a reasonably adequate and effective internal control framework to assist the Company in identifying and monitoring any material risk relating to sanction laws.

RISK MANAGEMENT

We are exposed to various risks during our operations. For more details about these risks, please refer to the section headed "Risk Factors". We have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, fund management, compliance with applicable laws and regulations on environmental protection, production safety and product safety. In order to implement our risk management policies and procedures effectively, we have established the following structures and measures to manage our risks:

- Our Board is responsible for and has general powers over the management and conduct of our business of our Group. Any significant operational decisions involving material risks, such as decisions to incur significant funds, are approved at the board level to ensure a thorough examination of the associated risks at our highest corporate governance body.

- Our audit committee is responsible for, among others, reviewing the risk management policies and monitoring the implementation of such policies by submitting an annual risk management report to the Board.

- Our legal and audit department is responsible for proposing risk management strategies, formulating policies on risk management, coordinating and preparing risk management assessments and reports, guiding all departments on relevant tasks and conducting risk management trainings. It is also in charge of designing a comprehensive risk evaluation system and supervising the implementation of risk management measures.

- Each of our functional departments is in charge of the daily business operations and risk monitoring, and is responsible for the supervision of respective fields of operations on a daily basis. Each department is also responsible for formulating their own risk management strategies and rectifying any deviations in implementation of such strategies.

- We have adopted various internal policies and procedures for various aspects of our operations. We provide trainings to our employees in order to enhance their knowledge of our corporate culture, with a view to manage our operational and market risks.

For the qualifications and experience of our Directors and the detailed description of the responsibility of our audit committee, please refer to the section headed "Directors and Senior Management".

OVERVIEW

Our Board consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Board is responsible for and has general powers for the management and the conduct of our business. The following table lists the current members of our Board and sets out certain information in respect of members of our Board.

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Directors and/or senior management
Executive Directors						
Mr. Meng Fanyong (孟凡勇)	57	Executive Director and chairman of our Board	28 August 2018 *(Note 1)*	18 September 1998	Overall strategic development, and leading the business development of our Group	Father of Mr. YX Meng
Ms. Xu Wenhong (徐文紅)	50	Executive Director and chief legal officer of our Group	27 February 2019	1 April 2003	Overall legal compliance of our Group	N/A
Mr. Meng Yuxiang (孟宇翔)	32	Executive Director and deputy chief executive officer of our Group	27 February 2019	21 May 2017	Overall human resources and production operational management of our Group	Son of Mr. Meng
Ms. Gan Shuya (干述亞)	52	Executive Director and chief operating officer of our Group	27 February 2019	23 August 2010	Overall operational and financial management of our Group	N/A
Mr. Yin Zhixiang (殷志祥)	62	Executive Director and chief technical officer of our Group	27 February 2019	23 August 2010	Overall R&D and technical management of our Group	N/A
Non-executive Director						
Mr. Zhang Hongyao (張紅耀)	49	Non-executive Director and vice-chairman of our Board *(Note 2)*	27 February 2019	19 June 2019 *(Note 2)*	Providing advice on enhancing sales and investment management of our Group	N/A

Name	Age	Position	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Directors and/or senior management
Independent Non-executive Directors						
Mr. Guo Kaiqi (郭開旗)	64	Independent non-executive Director	19 June 2019	19 June 2019	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee, the remuneration committee, the nomination committee, the corporate governance committee and the risk management committee	N/A
Mr. Wong Jovi Chi Wing (王志榮)	39	Independent non-executive Director	19 June 2019	19 June 2019	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee and the corporate governance committee	N/A
Mr. Cheng Haitao (成海濤)	61	Independent non-executive Director	19 June 2019	19 June 2019	Overseeing the overall affairs of our Group at Board level, being a member of the audit committee, the remuneration committee, the nomination committee and the risk management committee	N/A

Notes:

(1) Mr. Meng was appointed as our Director on 28 August 2018 and re-designated as our executive Director on 27 February 2019.

(2) Mr. Zhang was appointed as a Director on 27 February 2019 and re-designated as our non-executive Director and vice-chairman of our Board on 19 June 2019.

Senior management

The following table lists the current member of our senior management (other than our Directors) who is primarily responsible for the operations and management of our Group:

Name	Age	Position	Date of joining our Group	Date of first becoming a senior management of our Group	Responsibilities in our Group	Relationship with Directors and/or other senior management
Mr. Bai Gongli (白功利)	54	Chief executive officer of our Group	June 2017	11 June 2017	Overall administrative and operational management of our Group	N/A
Ms. Wong Gianne (王千華)	40	Finance and investor relations director of our Group and joint company secretary of our Company	1 January 2019	1 January 2019	Overall financial management, investor relations management and company secretarial matters	N/A

BOARD OF DIRECTORS

Executive Directors

Mr. Meng Fanyong (孟凡勇), aged 57

Executive Director and chairman of our Board

Mr. Meng is an executive Director and chairman of our Board who is responsible for the overall strategic development, and leading the business development of our Group. He was appointed as Director on 28 August 2018 and re-designated as executive Director on 27 February 2019. Mr. Meng is one of the founders of our Group and one of our Controlling Shareholders. Mr. Meng has over 37 years of experience in oilfield equipment business. He also has over 20 years of experience in operation and management business of OCTG manufacturing. He joined our Group on 18 September 1998. Mr. Meng has been a director and chairman of Dalipal Pipe since September 1998. Prior to joining our Group, he acquired knowledge and experiences in operation of oilfield and oil pipe manufacturing industry by holding various positions in North China Petroleum Administration Bureau Second Drilling Engineering Company* (華北石油管理局第二鑽井工程公司) ("**North China Second Drilling**"), which principally engages in maintenance of oilfield equipment and oilfield service, including technician, dispatcher of machine maintenance factory, workshop director, manager of machine maintenance factory, and deputy factory director of operational and services department from September 1981 to July 1999. Mr. Meng is also a director of certain subsidiaries of our 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.

Ms. Xu Wenhong (徐文紅), aged 50

Executive Director and chief legal officer of our Group

Ms. Xu is an executive Director and the chief legal officer of our Group who is responsible for the overall legal compliance of our Group. She was appointed as an executive Director on 27 February 2019. Ms. Xu has more than 25 years of experience in commercial legal advisory and over 13 years of experience in management of oil pipe manufacturing business. She joined our 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 Bohai Branch from November 2011 to October 2012, the deputy general manager of Dalipal Equipment Manufacturing, which principally engaged in production of pipe billets, 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 our 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)), which principally engages in production of oilfield equipment, 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 our 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.

Ms. Xu was a director of Beijing Hainaboda Enterprises Consultation Company Limited* (北京海納泊大企業管理顧問有限責任公司), which was established in the PRC. The said company was deregistered on 24 June 2010, and as advised by Ms. Xu, such deregistration was due to the shareholders' decision to cease business operations, and it was solvent at the time of deregistration. Prior to its deregistration, it principally engaged in business administration consultation services. She was also a supervisor of Langfang Development Zone Zhongyou Haide Petroleum Technology Development Company Limited* (廊坊開發區中油海德石油技術開發有限公司) ("**Langfang**"), which was established in the PRC and its business license had been revoked on 21 September 2004 as it had not conducted annual inspection in accordance with the relevant laws and regulations. Ms. Xu confirmed that she has ceased to act as the supervisor of Langfang in or about January 2003, however, Langfang has not made the necessary Administration for Industry and Commerce Bureau filings to update such record. Furthermore, Ms. Xu has confirmed that no liability or obligation was imposed on her at the time of such revocation, and to her best knowledge and after making careful inquiries, Langfang was solvent at the time of revocation.

Mr. Meng Yuxiang (孟宇翔), aged 32

Executive Director and deputy chief executive officer of our Group

Mr. YX Meng is an executive Director and the deputy chief executive officer of our Group who is responsible for the overall human resources and production operational management of our Group. He was appointed as an executive director on 27 February 2019. Mr. YX Meng is one of our Controlling Shareholders. He has over seven years of experience in management. Mr. YX Meng joined our Group on 21 May 2017. He has been the deputy general manger 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 our 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), which principally engages in property development, 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), which principally engages in property development, 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), which principally engages in property management, from July 2008 to February 2011. Mr. YX Meng is also a director of certain subsidiaries of our Group.

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 52

Executive Director and chief operating officer of our Group

Ms. Gan is an executive Director and the chief operating officer of our Group who is responsible for the overall operational and financial management of our Group. She was appointed as an executive Director on 27 February 2019. Ms. Gan has more than 33 years of experience in auditing and accounting in oil-related industry. She joined our 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 our 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), which principally engages in internal auditing, 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), which principally engaged in machine maintenance, from September 1984 to April 1985. Ms. Gan is also a director of certain subsidiaries of our 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.

Mr. Yin Zhixiang (殷志祥), aged 62

Executive Director and chief technical officer of our Group

Mr. Yin is an executive Director and the chief technical officer of our Group who is responsible for the overall R&D and technical management of our Group. He was appointed as an executive Director on 27 February 2019. He has more than 37 years of experience in the operation of oilfield. He joined our 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 our 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), which principally engages in oil machinery manufacturing, 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), which principally engages in oil machinery production and maintenance, 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 is also a director of Dalipal Pipe.

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.

Non-executive Director

Mr. Zhang Hongyao (張紅耀), aged 49

Non-executive Director and vice-chairman of our Board

Mr. Zhang was appointed as Director on 27 February 2019 and re-designated as our non-executive Director and vice-chairman of our Board on 19 June 2019. He is responsible for providing us with advice on enhancing sales and investment management of our Group. Mr. Zhang has more than 14 years of experience in oil pipe manufacturing industry. Prior to joining our Group, he has been the deputy general manager of Baosteel America Inc.* (寶鋼美洲有限公司), which principally engages in sale of steel and metal products, 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), which principally engages in steel and metal manufacturing and processing, 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), which principally engages in steel pipe production and processing, 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), which principally engages in sale and processing of steel pipe, 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.

Independent non-executive Directors

Guo Kaiqi (郭開旗), aged 64

Independent non-executive Director

Mr. Guo is an independent non-executive Director. He was appointed as an independent non-executive Director 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), which principally engages in procurement of materials relating to oil and natural gas, 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), which principally engages in oil and natural gas drilling and development, 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), which principally engages in oil and natural gas drilling and development, 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 39

Independent non-executive Director

Mr. Wong is an independent non-executive Director. He was appointed as an independent non-executive Director on 19 June 2019. Mr. Wong has over eight years of experience in finance industry and over 15 years of experience in general management. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules.

Mr. Wong has been the executive director of Wonder Capital Group Limited, which principally engages in the provision of investment management, since April 2018. He was the director, financial intermediaries of the Distribution — Pan Asia department of Janus Henderson Investors (Hong Kong) Limited, which principally engages in investment management, from July 2014 to April 2018; the associate of corporate finance department of China Merchants Securities (HK) Co., Ltd., which principally engages in the provision of corporate financial and capital market services, from June 2013 to July 2014; and the executive, assistant manager and associate of corporate finance department of Haitong International Capital Limited, which principally engages in the provision of corporate financial advisory services, from June 2010 to June 2013. He also worked in Auto22.com Ltd, which principally engages in property management, from December 2002 to February 2010, and his last position was general manager.

Mr. Wong obtained a bachelor's degree in science from the University of Auckland in September 2003 and a master's degree in business administration from the Hong Kong University of Science and Technology in November 2010. Mr. Wong was admitted as a member of CPA Australia in February 2018.

Cheng Haitao (成海濤), aged 61

Independent non-executive Director

Mr. Cheng is an independent non-executive Director. He was appointed as an independent non-executive Director on 19 June 2019. Mr. Cheng has over 27 years of experience in the steel pipe manufacturing industry. Mr. Cheng is currently not in any full-time employment.

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. He has ceased to be a committee member of the Fourth Steel Pipe Technician Sub-committee, National Steel Standardisation Committee* (全國鋼標準化委員會第四屆鋼管分技術委員會) since July 2019; and was certified as the secretary and deputy director committee member of the Seventh Pipe Technique Committee, China Metal Society* (中國金屬學會第七屆鋼管技術委員會) in October 2015; 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, since September 1999 and April 2007, respectively. Mr. Cheng was also the deputy manager and deputy general manager of Pangang Group Chengdu Vanadium Steel Company Limited* (攀鋼集團成都鋼釩有限公司), which principally engages in production of seamless steel pipes, 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), which principally engaged in manufacturing of seamless steel pipes, from June 2002 to August 2008; the deputy general manager of Pangang Group Chengdu Seamless Steel Pipe Company Limited* (攀鋼集團成都無縫鋼管有限責任公司) ("**Pangang Chengdu**"), which principally engaged in manufacturing of seamless steel pipes, 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), which principally engaged in production and manufacturing of seamless steel pipes; and the deputy factory director and the factory director of Chengdu Seamless Rolling Factory* (成都無縫周軋分廠), which principally engaged in production of seamless steel pipes, 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), which principally engaged in production of seamless steel pipes, 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 was a director of Pangang Chengdu, which was established in the PRC and its business license had been revoked on 10 July 2010 as it had not conducted annual inspection in accordance with the relevant laws and regulations. Mr. Cheng has confirmed that no liability or obligation was imposed on him at the time of such revocation.

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.

General

Save as disclosed above and in the section headed "Relationship with Our Controlling Shareholders", each of our Directors:

(i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date;

(ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date;

(iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date; and

(iv) confirmed, to the best of his or her knowledge, information and belief having made all reasonable enquiries, there were no other matters that need to be brought to the attention of our Shareholders in connection with his or her appointment, and there was no information relating to him or her required to be disclosed under Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

As at the Latest Practicable Date, save as the interests of each of the Directors in the Shares which are disclosed in the section headed "Appendix V — Further Information About Our Directors and Shareholders — 13. Directors" setting out certain information in respect our Directors in the shares, underlying shares or debenture of our Company and our associated corporation following the Global Offering", each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

SENIOR MANAGEMENT

Mr. Bai Gongli (白功利), aged 54

Chief executive officer of our Group

Mr. Bai is the chief executive officer of our Group who is responsible for the overall administrative and operational management of our Group. He joined our Group on 11 June 2017 as the general manger of Dalipal Pipe and became the director of Dalipal Pipe in December 2017. Prior to joining our 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), which principally engaged in pipe manufacturing, from March 2016 to May 2017; and the technician, engineer, deputy director, director, deputy general manager, party committee deputy secretary, general manager and executive director of Baoji Petroleum Pipe Company Limited* (寶雞石油鋼管有限責任公司), which principally engaged in manufacturing and design of pipe from July 1986 to March 2016. Mr. Bai is also a director of certain subsidiaries of our 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.

Ms. Wong Gianne (王千華) (formerly known as Wong Yuk Ki (王毓琦)), aged 40

Finance and investor relations director of our Group and joint company secretary of our Company

Ms. Wong is the finance and investor relations director of our Group and joint company secretary of our Company. She joined our Group on 1 January 2019. Ms. Wong has over 18 years of experience in corporate finance, financing and investment.

Prior to joining our Group, Ms. Wong worked for Kidsland International Holdings Limited, a company listed on the Main Board of Stock Exchange (stock code: 2122) and its subsidiaries, which principally engaged in the retail and wholesale of toys and infant products, from February 2013 to February 2019 and she was responsible for the pre-IPO investment project and the IPO project of such company. She was appointed as one of the joint company secretaries of Kidsland International Holdings Limited from April 2017 to February 2019. She has been the director of Acebright International Limited, which principally engaged in provision of consultancy services on functions ranging from corporate finance, investor relations and corporate development and is a licensed trust or company service provider since November 2008 and the vice-president in debt capital markets of Sumitomo Mitsui Banking Corporation from March 2007 to July 2009. Ms. Wong worked in Hongkong and Shanghai Banking Corporation, where she last served as the vice-president of commercial banking, from September 2003 to March 2007. She also worked in Arthur Andersen & Co. (currently known as PricewaterhouseCoopers), where she last served as senior associate, from September 2001 to September 2003.

Ms. Wong is the founder and chairman of SENPHA Limited, a registered charity focusing on mental health in Hong Kong. Ms. Wong was admitted as a fellow member of CPA Australia in January 2015. She was also admitted as an associate (treasury management) (currently known as certified banker) of the Hong Kong Institute of Bankers in November 2007. Ms. Wong obtained a bachelor's degree in business administration (accounting) from the Hong Kong University of Science and Technology in November 2001. She further obtained a master's degree of social sciences in applied psychology from the City University of Hong Kong in July 2015.

JOINT COMPANY SECRETARIES

Ms. Wong Gianne (王千華), aged 40

Joint company secretary of our Group

Ms. Wong is one of our joint company secretaries. She was appointed as a secretary of our Company on 18 February 2019. Please refer to her biographical details in the paragraph headed "Senior Management" in this section.

Mr. Chow Calvin Cheuk Yin (周卓言), aged 38

Joint company secretary of our Group

Mr. Chow is one of our joint company secretaries and was appointed as a secretary of our Company on 26 February 2019.

Mr. Chow obtained a bachelor's degree in mathematics from the University of Waterloo in October 2002 and completed the graduate diploma in English and Hong Kong Law (Common Professional Examination) from the University of Hong Kong (SPACE) in July 2006. He further obtained the Postgraduate Certificate in Laws from the University of Hong Kong in June 2008. Mr. Chow was admitted as a solicitor in Hong Kong in November 2010. He has been a solicitor in P.C. Woo & Co. since November 2010 and is currently a partner.

BOARD DIVERSITY POLICY

We have adopted a board diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of our Board. The Board Diversity Policy provides that our Company should endeavor to ensure that our Board members have the appropriate skills, expertise and diversity of perspectives that are required to support the execution of our business strategy. Pursuant to the Board Diversity Policy, selection of candidates for Directors will be based in a range of diversity perspectives, including but not limited to skills, professional experience, educational background, knowledge, expertise, culture, independence, age and gender. The ultimate decision of the appointment will be based on merit and the contribution which the selected candidates will bring to our Board and the business needs of our Company from time to time. Our Board believes that such merit-based appointments will best enable our Company to serve the Shareholders and other stakeholders going forward. Our Board comprises of nine members, including five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors have a balanced mix of experiences, including management and strategic development, finance and accounting experiences in addition to OCTG manufacturing business. Furthermore, our Board has a wide range of age, ranging from 32 years old to 64 years old, and gender diversity, whereby two of our executive Directors are female. We also have a good mix of new and experienced Directors, who have valuable knowledge and insights of our Group's business over the years, while the new Directors are expected to bring in fresh ideas and new perspective to our Group. Our nomination committee will (i) report annually, in the corporate governance report contained in our annual report, on our Board's composition under diversified perspectives, and monitor the implementation of the Board Diversity Policy; and (ii) will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy and discuss any revisions that may be required, and recommend any such revisions to our Board for consideration and approval.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of remuneration of our Directors for FY2016, FY2017, FY2018 and 6M2019 were approximately RMB1.1 million, RMB1.9 million, RMB3.4 million and RMB1.4 million, respectively. Details of the arrangement for remuneration are set out in Note 8 to the Accountants' Report in Appendix I to this prospectus. Under such arrangement and pursuant to our Directors' service agreements and letters of appointment referred to in the section headed "Appendix V — Statutory and General Information — Further details about our Directors and Shareholders — 13. Directors", the aggregate amount of directors' fee and other emoluments payable to our Directors for the year ending 31 December 2019 is estimated to be approximately RMB5.3 million, excluding any discretionary bonuses.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services forums or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After Listing, the remuneration committee of our Company will make recommendations to our Board on the overall remuneration packages of individual executive Directors and senior management of our Group of our Directors and senior management with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us. No compensation was paid to, or is receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Notes 8 and 9 to the Accountants' Report in Appendix I to this prospectus.

BOARD COMMITTEES

The audit committee, remuneration committee, nomination committee, corporate governance committee and risk management committee of our Company were approved to be established by resolutions passed by our Board on 19 June 2019. The membership of such committee are as follows:

Name of Director	Audit Committee	Remuneration Committee	Nomination Committee	Corporate Governance Committee	Risk Management Committee
Executive Directors					
Mr. Meng	—	—	Chairman	—	—
Ms. Xu	—	—	—	Chairlady	Chairlady
Mr. YX Meng	—	Member	—	—	—
Ms. Gan	—	—	—	—	—
Mr. Yin	—	—	—	—	—
Non-executive Director					
Mr. Zhang	—	—	—	—	—
Independent non-executive Directors					
Mr. Guo	Member	Chairman	Member	Member	Member
Mr. Wong	Chairman	—	—	Member	—
Mr. Cheng	Member	Member	Member	—	Member

Each of the above committees has written terms of reference. The functions of the above five committees are summarised as follows:

Audit committee

Our Company has established an audit committee with written terms of reference in compliance with Code C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting, oversee the internal control and risk management systems of our Company. At present, our audit committee comprises Mr. Guo, Mr. Wong and Mr. Cheng, all being independent non-executive Director. Mr. Wong is the chairman of our audit committee.

Remuneration committee

Our Company has established a remuneration committee with written terms of reference in compliance with Code B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our remuneration committee are to make recommendations to our Board on the overall remuneration packages of individual executive Directors and senior management of our Group and review performance based remuneration. At present, our remuneration committee comprises Mr. YX Meng, Mr. Guo and Mr. Cheng. Mr. Guo is the chairman of our remuneration committee.

Nomination committee

Our Company has established a nomination committee with written terms of reference in compliance with Code A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary functions of our nomination committee are to review the structure, size and composition (including the skills, knowledge and experiences) of the Board and to make recommendations to the Board on any proposed changes to the Board composition; to assess the independence of independent non-executive Director; to identify individual suitably qualified as potential Board members and to select or make recommendation to the Board regarding candidates to fill vacancies on our Board; and to make recommendations to the Board on the appointment and re-appointment of Directors and succession planning of the Directors. At present, our nomination committee comprises Mr. Meng, Mr. Guo and Mr. Cheng. Mr. Meng is the chairman of the nomination committee.

Corporate governance committee

Our Company has established a corporate governance committee with written terms of reference. The primary functions of our corporate governance committee are to introduce and propose relevant principles concerning corporate governance and to review and determine the corporate governance policy of our Group. At present, our corporate governance committee comprises Ms. Xu, Mr. Guo and Mr. Wong. Ms. Xu is the chairlady of the corporate governance committee.

Risk Management Committee

Our Company has established a risk management committee with written terns of reference. The primary functions of our risk management committee are to review and determine the risk management policy of our Group; and to monitor our exposure to sanctions risks and our implementation of the related internal control procedures. At present, our risk management committee comprises Ms. Xu, Mr. Guo and Mr. Cheng. Ms. Xu is the chairlady of the risk management committee.

COMPLIANCE ADVISER

We have appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares, the possible development of a false market in our Shares, or any other matters.

The term of appointment of our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

Our Company has adopted the Pre-IPO Share Option Scheme on 19 June 2019 and conditionally adopted the Share Option Scheme on 19 June 2019 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for new Shares. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarised in the section headed "Appendix V — Statutory and General Information — Other Information".

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, we will be owned as to approximately 47.1% by Rosy Astral. Rosy Astral is an investment holding company.

Rosy Astral is owned as to approximately 80.6% by Mr. Meng and 19.4% by Mr. YX Meng. Mr. Meng is one of our founders, chairman of our Board, an executive Director. Mr. YX Meng is an executive Director and deputy chief executive officer of our Group. Mr. YX Meng is the son of Mr. Meng. Please refer to the section headed "Directors and Senior Management" for further information on Mr. Meng and Mr. YX Meng's work experiences. For the purpose of the Listing Rules, Rosy Astral, Mr. Meng and Mr. YX Meng are a group of Controlling Shareholders.

Our Directors consider that our Group is capable of carrying on our business independently of our Controlling Shareholders and their respective associates (other than us) based on the following reasons:

Operational Independence

During the Track Record Period and up to the Latest Practicable Date, we have independent access to our customers and suppliers. We have our own internal control systems and accounting systems for our business operations. Therefore, our operations are independent of and not connected with any of our Controlling Shareholders. On this basis, our Directors believe that we do not unduly rely on our Controlling Shareholders to carry on our business.

During the Track Record Period, we had used certain trademarks owned by Dalipal Group. Pursuant to a trademarks transfer agreement dated 15 August 2018, Dalipal Group has transferred all of such trademarks to Dalipal Pipe at nil consideration.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders.

To meet our working capital requirements, we had bank loans of approximately RMB808.8 million, RMB1,106.8 million, RMB1,655.0 million and RMB2,054.0 million as at 31 December 2016, 2017, 2018 and 30 June 2019, respectively. Certain of our loans were secured by (i) property of Mr. Meng; (ii) guarantees provided by Dalipal Group, Mr. Meng and his spouse; and/or (iii) pledges of equity interest in Dalipal Group owned by Mr. Meng. Please refer to the section headed "Financial Information — Indebtedness and Contingent Liabilities" for details. All of the securities and guarantees provided by these related parties have been released as at the Latest Practicable Date.

There was no amount due from our Controlling Shareholders, their respective associates and/or related parties to our Group as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Loan from a related party of our Group amounted to approximately RMB13.5 million, RMB0.8 million, nil and nil as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Loan from a related party as at 31 December 2016 and 2017 bore interest rate at 5.44% per annum and had been fully repaid in FY2018. We have granted a loan amounting to RMB170.0 million to Dalipal Group. Such loan bore interest rate at 4.35% per annum and has been fully repaid during FY2018.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholders, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities and other borrowings.

In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholders and/or their associates for any financial assistance.

Management Independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Two of the directorships of our executive Directors are held by Mr. Meng and Mr. YX Meng who are also our Controlling Shareholders.

Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent management team to carry out the business decisions of our Group independently. Our Directors are satisfied that our management team is able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

RULE 8.10 OF THE LISTING RULES

None of our Controlling Shareholders and our Directors has any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that none of them engages in, or is interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given non-compete undertakings in our favour under the Deed of Non-competition on 19 June 2019, pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken with us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates (other than our Group) shall:

(i) save for the Excluded Business (as defined below), not, directly or indirectly, carry on, invest in or be engaged in any business which will or may compete with the business currently and from time to time engaged by our Group ("**Restricted Business**"), including but not limited to the marketing, sales, distribution, production and/or processing of OCTG, other oil pipes, pipe billets and other relevant products of our Group from time to time ("**Restricted Products**");

(ii) not solicit any existing or then existing employee of our Group for employment by them or their respective associates (excluding our Group);

(iii) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as our Controlling Shareholders and/or Directors for the purpose of competing with the Restricted Business; and

(iv) in respect of any order undertaken or proposed to be undertaken by them or their respective associates (excluding our Group) involving the marketing, sales, distribution, production and/or processing of any Restricted Products, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the marketing, sales, distribution, production and/or processing of the Restricted Products under the relevant order.

For the above purpose:

(A) the "Relevant Period" means the period commencing from the Listing Date and shall, in respect of each Controlling Shareholder, expire upon the earliest date of occurrence of the events below:

  (a) the date on which such Controlling Shareholder ceases to be a controlling shareholder of our Company (as defined under the Listing Rules); or

  (b) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange;

(B) the "Excluded Business" means:

(a) any direct or indirect investments of the Controlling Shareholders and/or their respective associates (excluding our Group) in any member of our Group;

(b) any direct or indirect investment of the Controlling Shareholders and/or their respective associates (excluding our Group) in the marketing, sales, distribution, production and/or processing of the Restricted Products outside the PRC whereby:

(i) the aggregate investment by such Controlling Shareholder and/or his/its associates in the business shall not exceed 30% of the entire equity interests in that business; and

(ii) none of such Controlling Shareholder and/or his/its associates will be involved in the operation and management of that business; and

(c) any direct or indirect investment in our Controlling Shareholders and/or their respective associates (excluding our Group) in shares of a publicly listed company (other than any member of our Group) whereby:

(i) the aggregate interests held by such Controlling Shareholder and/or his/its associates shall not exceed 5% of the entire issued shares of that company; and

(ii) none of such Controlling Shareholder and/or his/its associates (individually or taken as a whole) will be the single largest shareholder or equity holder of that company; and

(iii) none of such Controlling Shareholder and/or his/its associates will be involved in the operation and management of that company and/or its subsidiaries.

Each of our Controlling Shareholders has undertaken under the Deed of Non-competition that he or it shall, and procure his/its respective associates (other than our Group) to, provide to us and/or our Directors (including the independent non-executive Directors) from time to time all information necessary for annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Deed of Non-competition in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to the compliance and enforcement of the Deed of Non-competition, we have adopted the following corporate governance measures:

(i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;

(ii) we will disclose any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;

(iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and

(iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Deed of Non-competition, he shall disclose his interests to our Board and may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering and Capitalisation Issue (but without taking account of any Shares which may be taken up under the Global Offering and without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), the following persons will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of shareholder	Nature interest	Number of Shares held/interested as at the Latest Practicable Date	Approximate percentage of interest in our Company as at the Latest Practicable Date	Number of Shares held/interested immediately following completion of the Capitalisation Issue and the Global Offering *(Note 1)*	Approximate percentage of interest in our Company immediately after the Capitalisation Issue and the Global Offering
Mr. Meng	Interest of a controlled corporation *(Note 2)*	588,628	58.9%	706,353,600 (L)	47.1%
Ms. Luo Yumei	Interest of spouse *(Note 3)*	588,628	58.9%	706,353,600 (L)	47.1%
Rosy Astral	Beneficial owner	588,628	58.9%	706,353,600 (L)	47.1%
Polaris Swift	Beneficial owner	348,185	34.8%	417,822,000 (L)	27.9%

Notes:

(1) The letter "L" denotes a person's "long position" in such Shares.

(2) These 706,353,600 Shares are held by Rosy Astral (which is owned as to approximately 80.6% by Mr. Meng). By virtue of the SFO, Mr. Meng is taken to be interested in the Shares held by Rosy Astral.

(3) Ms. Luo Yumei is the spouse of Mr. Meng. Under the SFO, Ms. Luo Yumei is taken to be interested in the same number of Shares in which Mr. Meng is interested.

Save as disclosed herein, our Directors are not aware of any persons who will, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account Shares which were granted or may be allotted and issued upon the exercise of the Over-allotment Option and the options which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

Please refer to the sections headed "History, Reorganisation and Corporate Structure" and "Relationship with Our Controlling Shareholders" for details of relationships among our substantial Shareholders.

TOTAL AUTHORISED AND ISSUED SHARE CAPITAL OF OUR COMPANY

The authorised and issued share capital of our Company is as follows:

Authorised share capital:		*HK$*
20,000,000,000	Shares of HK$0.10 each	2,000,000,000

Assuming the Over-allotment Option is not exercised, the share capital of our Company immediately following completion of the Global Offering and Capitalisation Issue will be as follows:

Issued and to be issued and fully paid or credited as fully paid:

1,000,000	Shares in issue as at the date of this prospectus	100,000
1,199,000,000	Shares to be issued pursuant to the Capitalisation Issue	119,900,000
300,000,000	Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option)	30,000,000
1,500,000,000	**Shares**	150,000,000

Assuming the Over-allotment Option is exercised in full, the share capital of our Company immediately following the completion of the Global Offering and Capitalisation Issue will be as follows:

Issued and to be issued, fully paid or credited as fully paid:

1,000,000	Shares in issue as at the date of this prospectus	100,000
1,199,000,000	Shares to be issued pursuant to the Capitalisation Issue	119,900,000
300,000,000	Shares to be issued pursuant to the Global Offering	30,000,000
45,000,000	Shares to be issued if the Over-allotment Option is exercised in full	4,500,000
1,545,000,000	**Shares**	154,500,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and is completed in accordance with the relevant terms and conditions. It takes no account of any Shares (i) which may be allotted and issued upon the exercise of the options which were or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme; and (ii) which may be allotted, issued or repurchased by our Company pursuant to the general mandates granted to our Directors for the allotment and issue of Share and the repurchase of Shares as referred to below or otherwise.

RANKING

The Offer Shares and the Shares that may be issued pursuant to the Over-allotment Option will rank *pari passu* with all existing Shares in issue on the date of the allotment and issue of such Shares, and in particular will be entitled to all dividends or other distributions declared, made or paid after the date of this prospectus.

PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

Our Company has adopted the Pre-IPO Share Option Scheme on 19 June 2019 and conditionally adopted the Share Option Scheme. A summary of the principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme is set out in the section headed "Appendix V — Statutory and General Information — Other Information".

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

(a) 20% of the aggregate number of Shares in issue, excluding the Shares which may be issued pursuant to the Over-allotment Option, immediately following completion of the Global Offering and Capitalisation Issue; and

(b) the aggregate number of Shares repurchased by our Company, if any, under the general mandate to repurchase Shares referred to below.

The aggregate number of Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, scrip dividend scheme or similar arrangement in accordance with the Articles of Association, or pursuant to the exercise of options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or under the Global Offering or upon the exercise of the Over-allotment Option.

The general unconditional mandate will expire upon the earliest occurrence of any of the following:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please see "Appendix V — Statutory and General Information — Further Information About Our Group — 3. Resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019".

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate number of Shares of not more than 10% of the aggregate number of Shares in issue following the completion of the Global Offering and Capitalisation Issue (excluding Shares which may to be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in "Appendix V — Statutory and General Information — Further information about our Group — 7. Repurchase by our Company of our own securities".

The mandate will expire at the earliest of:

- the conclusion of our Company's next annual general meeting;
- the expiration of the period within which our Company is required by law or its Articles of Association to hold its next annual general meeting; or
- when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to "Appendix V — Statutory and General Information — Further Information About our Group — 3. Resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019".

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Pursuant to the Cayman Islands Companies Law and the terms of our Memorandum and Articles of Association, our Company may from time to time by ordinary resolution of our Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may reduce its share capital by special resolution of our Shareholders. For more details, please refer to the section headed "Appendix IV — Summary of the Constitution of our Company and Cayman Islands Company Law — 2(c) Alterations of capital." Pursuant to the terms of our Memorandum and Articles of Association, if at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Cayman Islands Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. For more details, please refer to the section headed "Appendix IV — Summary of the Constitution of Our Company and Cayman Islands Company Law — 2(d) Variation of rights of existing shares or classes of shares".

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our audited consolidated financial statements for FY2016, FY2017, FY2018 and 6M2019 and related notes thereto set forth in the Accountants' Report, as set out in Appendix I and our selected historical consolidated financial information and operating data included elsewhere in this prospectus. Our consolidated financial statements have been prepared in accordance with IFRS. You should read the entire Accountants' Report and not merely rely on the information contained under this section of the prospectus.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and interpretation of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk Factors" and "Forward-looking Statements" in this prospectus for discussions of those risks and uncertainties.

OVERVIEW

We are an OCTG manufacturer focusing on the manufacture of casing. During the Track Record Period and up to the Latest Practicable Date, casing had been the only type of OCTG that we had sold. We are a leading OCTG manufacturer among private-owned manufacturers with an integrated business model, providing full range services covering the development, manufacture and sales of OCTG and other oil pipes primarily to oil companies, OCTG manufacturers and OCTG processing factories in the PRC, and securing stable and cost-efficient supply of our principal production material, i.e., pipe billets, by manufacturing them on our own. We are also capable of developing and manufacturing tubing, being another major product of OCTG. During the Track Record Period, we had also sold our surplus pipe billets to, amongst others, steel products, oil pipes and energy equipment manufacturers in the PRC after fulfilling our internal production needs. According to the CIC Report, we (i) ranked third among all of OCTG manufactures in the PRC in 2018 and we are the market leader among private-owned manufacturers in the supply of OCTG in the PRC in 2018 with approximately 9.6% market share based on our OCTG sales value in FY2018; and (ii) we ranked sixth among all of the OCTG manufacturers and second among private-owned manufacturers in the PRC with approximately 7.7% market share in terms of the overall OCTG markets based on our sales value of overall OCTG in FY2018.

For FY2016, FY2017, FY2018 and 6M2019, we derived our revenue mainly from the sales of OCTG and pipe billets, which in aggregate accounted for approximately 80.8%, 89.9%, 88.8% and 87.4% of our total revenue, respectively. Please refer to the paragraph headed "Revenue" in this section for details of the breakdown of our revenue by segment. We derived most of our revenue from our major customers in the PRC during the Track Record Period. During the Track Record Period, our revenue from the PRC contributed to approximately 89.3%, 96.0%, 91.5% and 92.6% of our revenue. We also export some of our OCTG and oil pipes to customers in overseas market. During the Track Record Period, our revenue from overseas markets contributed to approximately 10.7%, 4.0%, 8.5% and 7.4% of our revenue, respectively.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial conditions have been and will continue to be affected by a number of factors, including those discussed below, some of which are beyond our control.

Changes in demand for oil equipment and services in the PRC and globally

Demand for our OCTG and other oil pipe products is significantly affected by, among other things, the level of oil production activity in the PRC and elsewhere in the world. The PRC and global demand for oil directly affects the level of oil production activity, which is in turn reflected in the number of PRC and worldwide oil wells being drilled and completed. Any change in government policies, which provide the guidelines of operations and maintain the stable production of the entire oil and gas industry in the PRC, could increase the level of capital expenditure by oil companies and demand for OCTG and other oil pipe products. Since the end of 2016, the PRC government has initiated a series of policies in "13th Five-Year Plan" to improve the security of national energy and provided specific guidelines to drive domestic oil production volume, which was one of the factors that affected our business and results of operations. Please refer to the section headed "Industry Overview — Market size of the Oilfield Services and Equipment Industry in the PRC and related drivers", for details.

Changes in selling price of our products

The average selling price of each of OCTG, other oil pipes and pipe billets increased during FY2016, FY2017 and FY2018. The increase of our product prices was mainly driven by (i) market environment; (ii) the increase in raw material prices; and (iii) the increase in the proportion of sales of high-end OCTG which were of a higher average selling price than OCTG with standard specifications. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" and the paragraph headed "Description of Certain Key Items of the Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Revenue breakdown by product categories" for further details. In the event that the selling price of our products declines in the future, this will likely reduce our revenue, gross profit margin and profitability.

Direct material costs and purchase costs

Our direct material costs and purchase costs constitute our largest segment of cost of sales during each of FY2016, FY2017, FY2018 and 6M2019. We are exposed to the market risk of price fluctuation, and fluctuation in prices may cause fluctuation in our cost of sales. Any increase in the price of our cost of acquisition of direct materials would negatively impact our gross profit margin if we are unable to transfer the increased cost resulting from such price increase through increasing the selling price of our sales. Our direct material costs and purchase costs consist of mainly cost of scrap metal. For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our direct material costs and purchase costs from our cost of sales (while other factors being constant) on our profit before tax during the Track Record Period. Fluctuations in our direct material costs and purchase costs from our cost of sales are assumed to be an increase/decrease of 20%, 25% and 30%, which rates are commensurate with the historical fluctuation of our Group's direct material costs and purchase costs during the Track Record Period.

	+/-20%	+/-25%	+/-30%
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in profit before tax if increase/decrease in direct material costs and purchase costs			
FY2016	-/+93,974	-/+117,468	-/+140,961
FY2017	-/+241,326	-/+301,658	-/+361,990
FY2018	-/+346,075	-/+432,593	-/+519,112
6M2019	-/+165,719	-/+207,149	-/+248,579

Management and Expansion of Our Production Capacity

Growth in our revenue and market share largely depends on our ability to manage and expand our production capacity. We maintained relatively high utilisation rates at our existing production facilities for each of the major products we sold. For FY2018 the utilisation rates for each of OCTG, other oil pipe and pipe billets was approximately 94.5%, 93.6% and 97.3%, respectively. For details of our designed annual production capacity, actual output and utilisation rate for our key production lines by product type during the Track Record Period, please refer to the section headed "Business — Production — Production Capacity and Utilisation Rate". In order to meet growing customer demands for our products, we are currently undergoing expansion of our production capacity to capture the changing and increasing demand opportunities in the oil pipe industry and expand the market share of our products within its respective segment. Our future growth depends on our ability to continue to expand our production facilities and manage our production capacity and R&D ability efficiently.

Integration of production of other oil pipes into our Group

We achieved full integration of our business model covering production of pipe billets, other oil pipes and OCTG by end of 2016. Before the integration of production of other oil pipes into our Group, we only had capabilities in the production of pipe billets and OCTG. In the absence of other oil pipes production lines, we could not achieve an integrated business model that provides full range of production. In August 2014, Hebei Litonglian, which had been producing ordinary structural tubes and fluid tubes, transferred certain land use rights and business assets to our Group. The relevant transfer of the land use rights and the business assets was completed in August 2014 and the production facilities have become our Gaoxin District Factory since then, thereby enabling us to achieve an integrated business model. Between August 2014 and October 2014, we conducted preparation works, such as recruiting the relevant staff and activating machineries, to prepare for the transformation of the production facilities for integration into our business model.

As the production facilities were originally used by Hebei Litonglian mainly for production of ordinary structural tubes and fluid tubes, in order to transform such production facilities so as to fit our production needs for manufacturing pipes for use in oil exploration, during the period from October 2014 to December 2016, we performed certain improvement and transformation works on the relevant production facilities as set out below before we achieve full integration by end of 2016. To ensure the production line in our Gaoxin District Factory is capable of manufacturing oil pipes that can be further processed into OCTG that meet the required specifications, we engaged external professional technicians to assist in the process of achieving full integration of the production facilities transferred from Hebei Litonglian into our production facilities:

Time	Events
October 2014 to March 2015	Immediately following the transfer of the Gaoxin District Factory to us from Hebei Litonglian, our in-house technicians engaged external professional technicians in conducting feasibility studies and formulating the transformation plan and implementing the transformation works on the other oil pipes production line for improving its operational performance and stability and production quality.
April 2015 to October 2015	We carried out further improvement works on our other oil pipe production line at our Gaoxin District Factory to fine-tune its performance and to troubleshoot any problem arising in the course of operation of the production line.
November 2015 to December 2016	We installed a tracking system which monitors the length and weight of each oil pipe to better control the quality of production, improved the ring furnace system and other ancillary production facilities to improve our production efficiency and production quality. Certain transformation works were also undertaken to fix certain operational errors or deficiencies identified during the production process during the period.

Between August 2014 and 2016 apart from the continuous improvement works on our other oil pipe production line, we also produced other oil pipes on non-full scale basis. The transitional process involved before we achieved full integration of production of other oil pipes into our Group had affected the efficiency of our manufacturing process, such as more time and resources were required in training staffs to operate the new production lines, to identify any deficiency in the existing production facilities at Gaoxin District Factory, diverting the human resources from the other production lines, to conduct feasibility study on the improvement and transformation (including adjustment and transformation of not only the other oil pipes production line, which eventually its other oil pipes could be used to produce OCTG, but also the pipe billets production line in order for it to be able to manufacture pipe billets with specification which could match the specification requirement of the other oil pipes production line for further processing into other oil pipes), and to implement such improvement and transformation before the operation of such production facilities can be fully integrated into our business model and can be operated smoothly as set out above. The unreliability and uncertainty in efficiently and effectively utilising the production capacity of the production facilities at Gaoxin District Factory from time to time before completion of these improvement and transformation works on both the pipe billets production line (for example, some of the specification of pipe billets were adjusted to suit the production requirement of other oil pipes) and the other oil pipes production line had also disturbed the procurement and production plans of all production lines of our Group. The impact on our production efficiency affected our ability to satisfy our customers' demand on different types of products as a result of which affected the utilisation rate of our production lines in FY2016. Apart from the impact of integration, the relatively less favourable market conditions of the OCTG industry in 2016 also affected the utilisation rate of our production lines in FY2016. Upon achieving the full integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG, it allowed us to enhance our production efficiency and enhanced our abilities to satisfy our customers' demand, which would thus increase our utilisation of each of our key production lines. We are also able to capture the gross profit of other oil pipes upon integration of the production of other oil pipes into our production process. For details of the impact on our operational and financial performance associated with such integration, please refer to the paragraph headed "Review of Historical Operating Results — Period to period comparison of results of operations".

BASIS OF PREPARATION

The financial information has been prepared by our Directors based on accounting policies set out in the section headed "Appendix I — Accountants' Report — Notes to the Historical Financial Information — 1. Basis of preparation and presentation of the Historical Financial Information" that conform with IFRSs issued by the IASB and the applicable disclosure provisions of the Listing Rules, and no adjustments have been made in preparing the financial information.

SIGNIFICANT ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, judgments and estimates that are important for you to understand our financial condition and results of operations, are set out in detail in Notes 2 and 3 of Appendix I to this prospectus respectively. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. Our estimates are based on historical experience, latest information and other assumptions that we believe to be reasonable under the current circumstances. Actual results may differ under different assumptions and conditions. We have not changed our assumptions or estimates in the past. Under current circumstances, we do not expect that our assumptions or estimates are likely to change significantly in the foreseeable future.

Our Directors have identified the below accounting policies, estimates and judgments that they believe are critical to the preparation of our financial statements.

Revenue

Revenue is recognised when control over a product is transferred to our customer at the amount of promised consideration to which we are 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. Revenue is recognised when our 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.

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (q) Revenue and other income" for further details of our accounting policy in relation to revenue recognition.

Inventories

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.

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (h) Inventories" for further details of our accounting policy in relation to inventories.

Income tax

Income tax for the period 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 period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods. 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.

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (o) Income tax" for further details of our accounting policy in relation to income tax.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. 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. 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.

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (d) Property, plant and equipment" for further details of our accounting policy in relation to property, plant and equipment.

Trade and other receivables

A receivable is recognised when our 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 we have an unconditional right to receive consideration, the amount is presented as a contract asset. Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (j) Trade and other receivables" for further details of our accounting policy in relation to trade and other receivables.

Trade and other payables

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

Please refer to the section headed "Appendix I — Accountants' Report — 2. Significant Accounting Policies — (l) Trade and other payables" for further details of our accounting policy in relation to trade and other payables.

Early Adoption of IFRS 9, IFRS 15 and IFRS 16

IFRS 9, *Financial Instrument*, IFRS 15, *Revenue from Contracts with Customers*, and IFRS 16, Leases are effective for annual periods beginning on or after 1 January 2018 or 1 January 2019 and earlier application is permitted. We have applied IFRS 9. IFRS 15 and IFRS 16 consistently during the Track Record Period.

We have assessed the effects of early application of IFRS 9, IFRS 15 and IFRS 16 on our financial statements and identified the following areas that have been affected:

- *Classification and measurement*. IFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI). The classification is determined based on the contractual cash flow characteristics of the financial assets and the entity's business model for managing the financial assets. Under IAS 39, the group's receivables were measured at amortised cost. These assets continue to be measured at amortised cost under IFRS 9.

- *Adoption of new impairment model*. IFRS 9 requires the recognition of impairment provision of financial assets measured at amortized cost based on expected credit losses. We have assessed that the adoption of the new impairment methodology do not result in any significant difference on recognition of impairment provision of financial assets measured at amortised cost.

- *Timing of revenue recognition*. Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. At contract inception, an entity evaluates whether it transfers the control to the customer over time and therefore revenue should be recognised over time — if not, then it transfers control at a point in time and revenue will be recognised at that single point in time. Our Company has assessed that revenue from sales of goods continues to be recognised at a point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs. Our Company has assessed that the new revenue standard do not have significant impact on how we recognises revenue from sale of goods.

- *Lease*. The Group's leases was previously classified as "Lease prepayments". Upon adoption of IFRS 16, the amortised carrying amount of the corresponding lease prepayments was identified as a right-of-use asset and has been reclassified as a sub-item of property, plant and equipment. Except for the above reclassification of lease prepayments, no other adjustments are required for the adoption of IFRS 16.

Taking into account the impacts disclosed above, we consider the adoption of IFRS 9, IFRS 15 and IFRS 16 did not have significant impact on our financial position and performance during the Track Record Period.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated statements of profit or loss and other comprehensive income from the financial statement during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	747,867	2,276,874	3,094,823	1,362,949	1,444,000
Cost of sales	(701,655)	(1,835,200)	(2,503,344)	(1,070,490)	(1,177,200)
Gross profit	46,212	441,674	591,479	292,459	266,800
Other Income	19,053	11,375	5,326	5,998	4,480
Selling expenses	(24,964)	(49,778)	(56,564)	(25,436)	(30,690)
Administrative expenses	(57,260)	(72,168)	(111,779)	(47,337)	(61,728)
Profit/(loss) from operations	(16,959)	331,103	428,462	225,684	178,862
Finance costs	(46,059)	(56,791)	(73,202)	(35,047)	(35,038)

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit/(loss) before taxation	(63,018)	274,312	355,260	190,637	143,824
Income tax (expenses)/tax credit	10,053	(42,103)	(54,062)	(28,717)	(26,792)
Profit/(loss) and total comprehensive income for the year/period	(52,965)	232,209	301,198	161,920	117,032
Attributable to:					
Equity shareholders of the Company	(52,965)	232,209	301,198	161,920	115,758
Non-controlling interests	—	—	—	—	1,274
Profit/(loss) and total comprehensive income for the year/period	(52,965)	232,209	301,198	161,920	117,032

DESCRIPTION OF CERTAIN KEY ITEMS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We derive our revenue from three major products, namely OCTG, other oil pipes and pipe billets.

Revenue breakdown by product categories

The following table sets out our revenue by product categories during the years/periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
OCTG	594,849	79.5	1,345,154	59.1	1,709,755	55.2	709,197	52.1	877,062	60.7
Other oil pipes	143,323	19.2	230,694	10.1	345,394	11.2	147,726	10.8	181,307	12.6
Pipe billets	9,695	1.3	701,026	30.8	1,039,674	33.6	506,026	37.1	385,631	26.7
Total	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

During the Track Record Period, we generated most of our revenue from the sales of OCTG, which accounted for approximately 79.5%, 59.1%, 55.2% and 60.7% of our total revenue for each of FY2016, FY2017, FY2018 and 6M2019, respectively.

Our sales of OCTG increased from approximately RMB594.8 million for FY2016 to approximately RMB1,709.8 million for FY2018, representing a CAGR of approximately 69.5%. Furthermore, sales of OCTG increased from approximately RMB709.2 million for 6M2018 to approximately RMB877.1 million for 6M2019, representing an increase of approximately 23.7%. Our sales of other oil pipes increased from approximately RMB143.3 million for FY2016 to approximately RMB345.4 million for FY2018, representing a CAGR of approximately 55.3%. Furthermore, sales of other oil pipes increased from approximately RMB147.7 million for 6M2018 to approximately RMB181.3 million for 6M2019, representing an increase of approximately 22.7%. Our sales of pipe billets increased from approximately RMB9.7 million for FY2016 to approximately RMB1,039.7 million for the FY2018, representing a CAGR of approximately 935.3%. Sales of pipe billets decreased from approximately RMB506.0 million for 6M2018 to approximately RMB385.6 million for 6M2019, representing a decrease of approximately 23.8%. The increase in our sales of each of these major products during FY2016, FY2017 and FY2018 was mainly due to (i) the increase in average selling price of our products; (ii) the increase in sales volume; and (iii) our ability to achieve full integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG, which allowed us to satisfy the demand from our customers. The increase in our sales of OCTG and other oil pipes in 6M2019 as compared to 6M2018 was mainly due to the increase in sales volume of OCTG and other oil pipes and the increase in average selling price of OCTG. The decrease in our sales of pipe billets in 6M2019 as compared to 6M2018 was mainly due to the decrease in sales volume as there was an increased amount of pipe billets that was utilised internally and the slight decrease in average selling price of pipe billets. Please refer to the paragraph headed "Review of Historical Operating Results" in this section for further analysis on the period to period fluctuation of our revenue.

The following table sets out further financial information on OCTG during the years/periods indicated:

	OCTG							
	Average selling price per tonne			**Gross Profit Margin (%)**			**Percentage of total OCTG sales (%)**	
	Overall	**Standard**	**High-end**	**Overall**	**Standard**	**High-end**	**Standard**	**High-end**
	Approximate			**Approximate**			**Approximate**	
	(RMB)	*(RMB)*	*(RMB)*					
FY2016	3,581	3,468	3,705	6.7%	4.3%	9.0%	50.6%	49.4%
FY2017	5,040	4,750	5,291	20.0%	15.4%	23.6%	43.7%	56.3%
FY2018	6,515	5,982	6,765	25.2%	22.0%	26.5%	29.4%	70.6%
6M2018	6,088	5,739	6,261	28.0%	25.3%	29.2%	31.3%	68.7%
6M2019	6,526	6,033	6,722	23.8%	21.3%	24.7%	26.3%	73.7%

Compared to standard OCTG, high-end OCTG would go through additional manufacturing process to enhance the level of physical performance, such as bending resistance. Standard OCTG possesses lower physical performance while high-end OCTG possesses higher physical performance.

Please refer to the section headed "Business — Customers — Sales Model by Products and Customer Types" for details on the breakdown of our revenue to the markets to which we sell our products during the Track Record Period.

Revenue breakdown by geographical locations

The following table sets out our revenue by geographical locations during the years/periods indicated. The following breakdown is based on the location at which the goods were delivered.

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
The PRC	667,550	89.3	2,186,639	96.0	2,831,305	91.5	1,308,158	96.0	1,336,726	92.6
Overseas: *(Note)*										
Oman	18,911	2.5	21,521	1.0	130,241	4.2	—	—	88,298	6.1
Others	61,406	8.2	68,714	3.0	133,277	4.3	54,791	4.0	18,976	1.3
	80,317	10.7	90,235	4.0	263,518	8.5	54,791	4.0	107,274	7.4
Total revenue	747,867	100.0	2,276,874	100.0	3,094,823	100.0	1,362,949	100.0	1,444,000	100.0

Note: During the Track Record Period, we had sold to over 10 countries and regions worldwide, including Oman, Egypt, Bahrain, Iran, Cameroon, Tanzania, Colombia, United Arab Emirates, Kazakhstan, Russia, Venezuela, Turkey, Iceland, Pakistan, New Zealand, Chad and Korea.

The above breakdown sets out the revenue by geographical locations of our customers during the Track Record Period. We derived most of our revenue from our major customers in the PRC during the Track Record Period. For each of FY2016, FY2017, FY2018 and 6M2019, our five largest customers accounted for approximately 66.7%, 56.0%, 50.0% and 58.2% of our total revenue. Our customers mainly include oil companies located in Daqing City, Hebei Province, Shaanxi Province, and Xinjiang Uygur Autonomous Region in the PRC, and a strategic customer which mainly procure pipe billets in Yantai City in the PRC.

The increase in the revenue from the PRC market during the Track Record Period was mainly due to (i) the increase in our selling price of our products along with market environment, increase in raw material prices and change of product mix; and (ii) the increase in sales volume driven by market demand and our ability to achieve high utilisation rate of our key production lines and thereby allowed us to achieve high production output.

Our revenue to overseas market for the FY2016 and FY2017 remained stable. Our revenue to overseas market for FY2018 increased by approximately RMB173.3 million, or approximately 192.0%, from approximately RMB90.2 million for FY2017 to RMB263.5 million for FY2018 mainly due to sales to two new overseas customers in respect of OCTG and other oil pipes to Egypt, Oman and Bahrain. The purchases made by these two customers accounted for approximately 95.6% of our overseas revenue for the FY2018. Our revenue to overseas market for 6M2019 increased by approximately RMB52.5 million, or approximately 95.8%, from approximately RMB54.8 million for 6M2018 to RMB107.3 million for 6M2019 mainly due to the increase in the sales to an overseas customer, which was one of our two new customers during FY2018 mentioned above, in respect of OCTG and other oil pipes to Oman and Bahrain.

Cost of sales

Our cost of sales mainly includes (i) direct material costs and purchase costs which consist of mainly scrap metal; (ii) labour costs which consist of the salary and benefits of our production staff; (iii) depreciation; and (iv) utilities.

The following table sets forth the principal components of our cost of sales for the years/periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Direct material costs and purchase costs	469,870	67.0	1,206,632	65.7	1,730,373	69.1	699,709	65.4	828,597	70.4
Labour costs	33,937	4.8	53,639	2.9	85,542	3.4	40,157	3.8	48,955	4.2
Depreciation	57,182	8.1	53,987	2.9	54,126	2.2	28,253	2.6	33,569	2.8
Utilities	76,775	10.9	250,855	13.7	290,396	11.6	141,300	13.2	145,340	12.3
Others	63,891	9.2	270,087	14.8	342,907	13.7	161,071	15.0	120,739	10.3
Total	701,655	100.0	1,835,200	100.0	2,503,344	100.0	1,070,490	100.0	1,177,200	100.0

Direct material costs and purchase costs accounted for the largest portion of our cost of sales, represented approximately 67.0%, 65.7%, 69.1% and 70.4% of our total cost of sales for FY2016, FY2017, FY2018 and 6M2019, respectively. The increase in our direct material costs and purchase costs during the Track Record Period was generally in line with the increase in our revenue. The decrease in our labour costs and depreciation as a percentage of our total cost of sales for FY2017 and/or FY2018 was mainly due to the fact that we were able to achieve full integration of our business model covering from upstream to downstream production which increased our overall production efficiency and thereby allowing us to fully utilise our key production lines. Our labour costs as a percentage to our total cost of sales increased from 3.8% for 6M2018 to 4.2% for 6M2019 as a result of the increase in average salary of our staff and increase in headcount of our employees. During the Track Record Period, we had purchased OCTG from suppliers who are Independent Third Parties when our OCTG production capacity was almost fully utilised to satisfy demands from our customers and the OCTG purchased are with low steel grades and/or large specifications. Please refer to the sections headed "Business — Suppliers" and "Business — Our Business Model" for further details. During the Track Record Period, the purchases of OCTG accounted for approximately 24.8%, 20.2%, 13.6% and 10.7% of our cost of sales for each of FY2016, FY2017, FY2018 and 6M2019, respectively.

"Others" under our cost of sales mainly represents cost for metallurgical auxiliary materials (冶金輔料), spare parts for accessories and durable materials of which accounted for in aggregate approximately 74.3%, 87.1%, 91.5% and 80.0% of our other cost of sales during each of FY2016, FY2017, FY2018 and 6M2019, respectively. Metallurgical auxiliary materials, which are added during the production process of pipe billets, as part of our other cost of sales increased during the Track Record Period and contributed the majority of our other cost of sales during each of FY2017 and FY2018, which accounted for 24.4%, 59.6%, 59.7% and 49.5% of our other cost of sales during each of FY2016, FY2017, FY2018 and 6M2019, respectively. The increase in the cost of metallurgical auxiliary materials in FY2017 and FY2018 was primarily due to the increase in our production of pipe billets and, in particular for FY2018, the increase in price of such materials. The decrease in the cost of metallurgical auxiliary materials in 6M2019 was primarily due to the decrease in market price of such materials.

Gross profit and gross profit margin

Our overall gross profit was approximately RMB46.2 million, RMB441.7 million, RMB591.5 million and RMB266.8 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively. Our overall gross profit margin was approximately 6.2%, 19.4%, 19.1% and 18.5% for each of FY2016, FY2017, FY2018 and 6M2019, respectively.

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
OCTG	39,644	6.7	269,263	20.0	430,194	25.2	198,613	28.0	208,548	23.8
Other oil pipes	5,503	3.8	39,513	17.1	57,843	16.7	33,497	22.7	31,595	17.4
Pipe billets	1,065	11.0	132,898	19.0	103,442	9.9	60,349	11.9	26,657	6.9
	46,212	6.2	441,674	19.4	591,479	19.1	292,459	21.5	266,800	18.5

The higher overall gross profit margin in FY2017 and FY2018 was mainly due to (i) the increase in the average selling prices of our products due to the market demand for our products, offsetting by the increase in purchase prices of raw materials; and (ii) high utilisation rate of our key production lines and thereby allowing us to achieve high production output and enjoy economies of scale which allowed us to decrease our manufacturing costs and our fixed costs per unit of our products. Our gross profit decreased by approximately RMB25.7 million, or approximately 8.8%, from approximately RMB292.5 million for 6M2018 to approximately RMB266.8 million for 6M2019, which was mainly due to the decrease in gross profit contribution from sales of pipe billets by approximately RMB33.6 million, which was partly offset by the increase in gross profit contribution from sales of OCTG by approximately RMB9.9 million. Sales volume of pipe billets decreased in 6M2019 as compared to 6M2018 mainly because of (i) the increased amount of pipe billets utilised internally by us for the production of OCTG and other oil pipes; and (ii) the temporary fluctuations in the scrap metal market, leading to the increase in the price of scrap metal, being our principal raw material. The selling price of pipe billets also slightly decreased during 6M2019. As such, we had reduced the production amount and sales volume of pipe billets. Our overall gross profit margin decreased from approximately 21.5% for 6M2018 to approximately 18.5% for 6M2019 mainly due to the increase in the purchase price of scrap metal during 6M2019, which was in line with the market trend. The overall gross profit for 6M2019 only slightly decreased as compared to that in FY2018. Please refer to the paragraph headed "Review of Historical Operating Results" in this section for further analysis on the period to period fluctuation of our gross profit margin.

Please refer to the paragraph headed "Description of Certain Key Items of the Consolidated Statements of Profit and Loss and Other Comprehensive Income — Revenue — Revenue breakdown by product categories" in this section for details on increase in utilisation rate and increase in average selling prices of our products.

As mentioned in the section headed "Business — Our Business Model", during the Track Record Period, we had purchased OCTG from suppliers who are Independent Third Parties. The following table sets out a breakdown of our gross profit margin of OCTG categorised for (i) overall sales of OCTG by us; and (ii) sales of OCTG manufactured by us:

	FY2016		FY2017		FY2018		6M2018		6M2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Overall sales of OCTG by us	39,644	6.7	269,263	20.0	430,194	25.2	198,613	28.0	208,548	23.8
Sales of OCTG manufactured by us	36,534	8.8	264,911	27.3	425,623	31.2	198,118	30.1	206,753	27.6

Other income

The following table sets out a breakdown of our other income for the years/periods indicated:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Government grants (including amortisation of deferred income)	10,428	9,535	1,304	186	1,398
Interest income	1,980	1,410	5,407	3,893	1,153
Rental income from operating leases	894	137	—	—	—
Net (loss)/gain on disposal of property, plant and equipment	1,073	19	(74)	—	—
Net foreign exchange (loss)/gain	1,347	(420)	(1,600)	178	(265)
Others	3,331	694	289	1,741	2,194
	19,053	11,375	5,326	5,998	4,480

Our other income mainly represents (i) government grants (including amortisation of deferred income). Deferred income represents government grants received to compensate our cost of construction of property, plant and equipment. Such grants are amortised over the useful lives of the related property, plant and equipment; (ii) interest income; (iii) net (loss)/gain on disposal of property, plant and equipment, which for FY2016 included a one-off compensation we received from a neighboring factory for the demolition of our auxiliary descaling plant; and (iv) net foreign exchange (loss)/gain. The net foreign exchange gain recognised in FY2016 was mainly due to the depreciation of RMB against the foreign currencies we invoiced for overseas sales during the year. The net foreign exchange loss recognised in FY2017, FY2018 and 6M2019 was mainly due to fluctuation of RMB against the foreign currencies we invoiced for overseas sales during the respective years.

Selling expenses

Our selling expenses primarily comprise (i) logistic expenses; (ii) staff cost; and (iii) other selling expenses. The following table sets out the breakdown of our selling expenses for the years/periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Logistics expenses	15,736	63.0	39,843	80.0	48,026	84.9	22,635	89.0	26,110	85.1
Staff cost	2,119	8.5	2,460	4.9	3,920	6.9	1,647	6.5	1,883	6.1
Commission to sale agents	2,490	10.0	3,320	6.7	—	—	—	—	—	—
After-sales warranty fee	2,390	9.6	221	0.4	—	—	—	—	—	—
Travelling and accommodation expenses	1,076	4.3	1,271	2.6	1,826	3.3	646	2.5	1,066	3.5
Other selling expenses	1,153	4.6	2,663	5.4	2,792	5.0	508	2.0	1,631	5.3
Total:	24,964	100.0	49,778	100.0	56,564	100.0	25,436	100.0	30,690	100.0

For each of FY2016, FY2017, FY2018 and 6M2019, our selling expenses represented approximately 3.3%, 2.2%, 1.8% and 2.1% of our revenue, respectively. The decrease in our selling expenses as a percentage of our revenue during FY2017 and FY2018 was mainly due to the rate of increase in logistics expenses was lesser than the rate of increase in revenue in FY2017. Our selling expenses as a percentage of our revenue slightly increased for 6M2019 was mainly because we incurred additional business development fees to expand our sales.

Administrative expenses

The following table sets out the breakdown of our administrative expenses for the years/periods indicated:

	Years ended 31 December						Six months ended 30 June			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Other taxes and surcharge *(Note 1)*	15,348	26.8	20,502	28.4	28,511	25.5	14,298	30.2	9,631	15.6
R&D expenses *(Note 2)*	14,411	25.2	18,422	25.5	23,279	20.8	10,995	23.2	12,432	20.1
Staff costs	10,460	18.3	12,805	17.7	22,549	20.2	8,271	17.5	11,124	18.0
Depreciation	9,414	16.4	9,636	13.4	10,434	9.3	4,695	9.9	6,111	9.9
Listing expenses	—	—	—	—	7,596	6.8	—	—	11,072	17.9
Professional fee	971	1.7	2,305	3.2	5,877	5.3	5,022	10.6	1,494	2.4
Travelling and accommodation expenses	883	1.5	3,181	4.4	2,220	2.0	880	1.9	1,224	2.0
Provision for/(reversal of) doubtful debts	1,882	3.3	(120)	(0.2)	327	0.3	506	1.1	2,359	3.8
Maintenance fee	424	0.7	777	1.1	1,902	1.7	281	0.6	1,066	1.7
Consumables	119	0.2	283	0.4	1,870	1.7	367	0.8	117	0.2
Others	3,348	5.9	4,377	6.1	7,214	6.4	2,022	4.2	5,098	8.4
Total:	57,260	100.0	72,168	100.0	111,779	100.0	47,337	100.0	61,728	100.0

Notes:

(1) Other taxes and surcharge mainly comprise of land use tax (土地使用稅), real estate tax (房產稅), stamp duty and vehicle and vessel tax (車船稅).

(2) Our R&D expenses primarily comprise of R&D staff salary, testing expenses and other miscellaneous expenses.

For each of FY2016, FY2017, FY2018 and 6M2019, our administrative expenses represented approximately 7.7%, 3.2%, 3.6% and 4.3% of our revenue, respectively. The decrease in our administrative expenses as a percentage of our revenue in the year FY2017 was mainly because our improved business performance upon completion of integration and the increase in administrative expenses are relatively less correlated with the increase in the revenue by nature. Our administrative expenses as a percentage of our revenue remained largely stable in FY2017 and FY2018 and slightly increased in 6M2019 mainly due to the Listing expenses incurred.

Finance costs

Finance costs represented interest incurred from borrowings and lease liabilities and others (which mainly include financing expenses and bills discounting interest) less interest expense capitalised into construction in progress. For each of FY2016, FY2017, FY2018 and 6M2019, our interest expenses and other financing expenses amounted to approximately RMB46.1 million, RMB56.8 million, RMB73.2 million and RMB35.0 million, respectively.

Income tax

For each of FY2016, FY2017, FY2018 and 6M2019, the income tax expenses incurred by us amounted to a credit of income tax of approximately RMB10.1 million, income tax expenses of approximately RMB42.1 million, RMB54.1 million and RMB26.8 million, respectively. This represents an effective tax rate of approximately 16.0%, 15.3%, 15.2% and 18.6%, respectively, for the corresponding years/period. The increase in effective tax rate during 6M2019 was primarily due to recognition of withholding tax in connection with the attained profits to be distributed by a subsidiary of the Group. Our profits are either earned in (i) the PRC, where our sole operating subsidiary in the PRC, Dalipal Pipe is qualified as high and new technology enterprise and was subject to a preferential income tax rate of 15% for FY2016, FY2017, FY2018 and 6M2019; (ii) Hong Kong, where Dalipal Trading was subject to profits tax of 16.5% for FY2016 and FY2017 and the two-tiered profits tax rates regime will be applicable from the year of assessment 2018/19 onwards. The profits tax rate for the first HK$2 million of profits of corporations will be lowered to 8.25% while profits above that amount will continue to be subject to the tax rate of 16.5%. Our effective tax rate is therefore dependent on the location of the assessable profits and also upon the incidence of items affecting assessable profits including but not limited to, non-deductible expenses, statutory tax preferences and utilisation of tax losses not previously recognised. The income tax expenses incurred during the Track Record Period were primarily attributable to our assessable profit generated in the PRC.

We did not need to pay tax for FY2016 as we incurred a loss before taxation for the year of approximately RMB63.0 million. As for FY2017, we made a profit before taxation of approximately RMB274.3 million, as such there was a current tax provision of approximately RMB2.9 million for the FY2017, after utilising the tax loss carry forward from prior years. We have settled the payment for the current tax expense incurred in FY2017 in 2018.

Our Directors confirm, as at the Latest Practicable Date, that we had made all required tax filings in all relevant jurisdictions and paid all tax liabilities that had become due. We were not subject to any dispute or potential dispute with any tax authorities.

REVIEW OF HISTORICAL OPERATING RESULTS

Period to period comparison of results of operations

6M2019 compared to 6M2018

Revenue

Our revenue increased by approximately RMB81.1 million, or approximately 6.0%, from approximately RMB1,362.9 million for 6M2018 to approximately RMB1,444.0 million for 6M2019. Such increase was primarily due to increase in revenue from sales of (i) OCTG by approximately RMB167.9 million, or approximately 23.7%, from approximately RMB709.2 million for 6M2018 to approximately RMB877.1 million for 6M2019; and (ii) other oil pipes by approximately RMB33.6 million, or approximately 22.7%, from approximately RMB147.7 million for 6M2018 to approximately RMB181.3 million for 6M2019. The increase in revenue was, to a large extent, contributed by the increase in sales volume of OCTG and other oil pipes which was partly offset by the decrease in sales volume and average selling price of pipe billets, and, to a lesser extent, the increase in average selling price of our OCTG:

(i) the sales volume of OCTG and other oil pipes increased from approximately 116,500 tonnes and 28,800 tonnes for 6M2018, respectively, to 134,400 tonnes and 35,400 tonnes for 6M2019, respectively, representing an increase of approximately 15.4% and 22.9%, respectively. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" for further details. Our other oil pipes mainly comprise of plain-end pipe which would be manufactured into OCTG. Therefore, the increase in the sales volume of our other oil pipes was generally in line with the market demand of OCTG. However, the increase in sales volume of OCTG and other oil pipes was partly offset by the decrease in sales volume of pipe billets from approximately 141,900 tonnes for 6M2018 to 109,500 tonnes for 6M2019, representing a decrease of approximately 22.8%. Such decrease in the sales volume of pipe billets was primarily due to an increased amount of pipe billets has been utilised internally; and

(ii) the average selling price of our OCTG increased from approximately RMB6,088 per tonne for 6M2018 to RMB6,526 per tonne for 6M2019, representing an increase of approximately 7.2%. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" for further details. The increase in average selling price of our OCTG was mainly due to the increase in proportion of the sales of high-end OCTG, which had higher average selling price.

Cost of sales

Our cost of sales increased by approximately RMB106.7 million, or approximately 10.0%, from approximately RMB1,070.5 million for 6M2018 to approximately RMB1,177.2 million for 6M2019. Such increase was primarily attributable to the increase in revenue, in particular, the increase in (i) direct material costs and purchase costs of approximately 18.4% from approximately RMB699.7 million for 6M2018 to RMB828.6 million for 6M2019 as a result of our increased sales volume of OCTG and other oil pipes, and the increase in price of raw materials; (ii) labour costs of approximately 21.9% from approximately RMB40.2 million for 6M2018 to approximately RMB49.0

million for 6M2019 as a result of increase in average salary of our employees and increase in headcount of our employees; and (iii) depreciation of approximately 18.7% from approximately RMB28.3 million for 6M2018 to approximately RMB33.6 million for 6M2019.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB25.7 million, or approximately 8.8%, from approximately RMB292.5 million for 6M2018 to approximately RMB266.8 million for 6M2019, which was mainly due to the decrease in gross profit contribution from sales of pipe billets by approximately RMB33.6 million, which was partly offset by the increase in gross profit contribution from sales of OCTG by approximately RMB9.9 million. Sales volume of pipe billets decreased in 6M2019 as compared to 6M2018 mainly because of (i) the increased amount of pipe billets utilised internally by us for the production of OCTG and other oil pipes; and (ii) the temporary fluctuations in the scrap metal market, leading to the increase in the price of scrap metal, being our principal raw material. The selling price of pipe billets also slightly decreased during 6M2019. As such, we had reduced the production amount and sales volume of pipe billets. Our gross profit for (i) OCTG increased by approximately 5.0% from approximately RMB198.6 million for 6M2018 to approximately RMB208.5 million for 6M2019; (ii) other oil pipes decreased by approximately 5.7% from approximately RMB33.5 million for 6M2018 to approximately RMB31.6 million for 6M2019; and (iii) pipe billets decreased by approximately 55.7% from approximately RMB60.3 million for 6M2018 to approximately RMB26.7 million for 6M2019. Our overall gross profit margin decreased from approximately 21.5% for 6M2018 to approximately 18.5% for 6M2019 mainly due to the increase in the purchase price of scrap metal during 6M2019, which was in line with the market trend. The overall gross profit for 6M2019 only slightly decreased as compared to that in FY2018.

Our gross profit margin for OCTG decreased from approximately 28.0% for 6M2018 to approximately 23.8% for 6M2019. Such decrease was mainly attributable to the increase in average unit production cost by approximately 13.5%, which was due to the increase in the price of raw material and labour costs, was higher than the increase in the average selling prices of OCTG of approximately 7.2%.

Our gross profit margin for other oil pipes decreased from approximately 22.7% for 6M2018 to approximately 17.4% for 6M2019. Such decrease was mainly due to the increase in average unit production cost of approximately 6.8% as a result of the increase in the price of raw material. Our gross profit margin for pipe billets decreased from approximately 11.9% for 6M2018 to approximately 6.9% for 6M2019. Such decrease was mainly due to the increase in the price of raw material for production of pipe billets, especially scrap metal.

Other income

Our other income decreased by approximately RMB1.5 million, or approximately 25.0%, from approximately RMB6.0 million for 6M2018 to approximately RMB4.5 million for 6M2019, mainly because of decrease in interest income as we did not grant any loan to Dalipal Group in 6M2019 and no interest income was generated.

Selling expenses

Our selling expenses increased by approximately RMB5.3 million, or approximately 20.9%, from approximately RMB25.4 million for 6M2018 to approximately RMB30.7 million for 6M2019. This increase was primarily due to the increase in logistics expenses incurred from approximately RMB22.6 million for 6M2018 to approximately RMB26.1 million for 6M2019 as sales increase.

Administrative expenses

Our administrative expenses increased by approximately RMB14.4 million, or approximately 30.4%, from approximately RMB47.3 million for 6M2018 to approximately RMB61.7 million for 6M2019. This increase was primarily due to (i) incurrence of Listing expenses of approximately RMB11.1 million; (ii) increase in our staff costs of approximately RMB2.9 million as a result of the increase in average salary of our staff and headcount; and (iii) the increase in R&D expenses of approximately RMB1.4 million, offset by the decrease in other taxes and surcharge due to the increase in deductible value-added tax as a result of the increase in capital expenditure.

Finance costs

Our finance costs remained stable at approximately RMB35.0 million for each of 6M2018 and 6M2019.

Income tax expense

Our income tax expense decreased by approximately RMB1.9 million, or approximately 6.7%, from approximately RMB28.7 million for 6M2018 to approximately RMB26.8 million for 6M2019. The decrease was mainly due to decrease in our profit before tax by approximately RMB46.8 million attributable to the factors discussed in the foregoing. Our effective tax rate increased from approximately 15.1% for 6M2018 to approximately 18.6% for 6M2019. The increase in effective tax rate during 6M2019 was primarily due to recognition of withholding tax in connection with the attained profits to be distributed by a subsidiary of the Group.

Profit and total comprehensive income for the period

As a result of the foregoing, our profit and total comprehensive income for the period decreased by approximately RMB44.9 million, from approximately RMB161.9 million for 6M2018 to approximately RMB117.0 million for 6M2019. The decrease in profit and total comprehensive income for 6M2019 as compared to 6M2018 was primarily due to the decrease in gross profit by approximately RMB25.7 million for the reasons as discussed above, the incurrence of listing expenses of approximately RMB11.1 million and the withholding tax in connection with the distribution of retained profits by a subsidiary of the Company of approximately RMB5.2 million. As a result of which our net profit margin decreased from approximately 11.9% for 6M2018 to approximately 8.1% for 6M2019.

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our revenue increased by approximately RMB817.9 million, or approximately 35.9%, from approximately RMB2,276.9 million for FY2017 to approximately RMB3,094.8 million for FY2018. Such increase was primarily due to a significant increase in revenue from sales of (i) OCTG by approximately RMB364.6 million, or approximately 27.1%, from approximately RMB1,345.2 million for FY2017 to approximately RMB1,709.8 million for FY2018; and (ii) pipe billets by approximately RMB338.6 million, or approximately 48.3%, from approximately RMB701.0 million for FY2017 to approximately RMB1,039.7 million for FY2018. The increase in our revenue was, to a large extent, contributed by the increase in average selling price of our products, and, to a lesser extent, the increase in overall sales volume of our products:

(i) the average selling price of each of OCTG, other oil pipes and pipe billets increased from approximately RMB5,040 per tonne, RMB4,083 per tonne and RMB3,201 per tonne for FY2017, respectively, to approximately RMB6,515 per tonne, RMB5,357 per tonne and RMB3,651 per tonne for FY2018, respectively, representing an increase of approximately 29.3%, 31.2% and 14.1%, respectively. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" for further details. The increase of our product prices was mainly driven by (a) favourable market conditions, in particular, the market price of our products (namely OCTG, other oil pipes and pipe billets) had demonstrated an increasing trend resulting from the rebound and increase in demand in the oilfield services and equipment industry, according to the CIC Report; (b) the increase in raw material prices of scrap metal. According to the CIC Report, the price of scrap metal increased from RMB1,876.9 per tonne in 2017 to RMB2,440.9 per tonne in 2018; and (c) the increase in the proportion of sales of high-end OCTG which were of a higher average selling price than OCTG with standard specifications. The percentage of sales of high-end OCTG of our total OCTG sales increased from 56.3% in FY2017 to 70.6% in FY2018. The increase in average selling price of our products was the dominating factor contributing to our revenue growth in FY2018; and

(ii) our sales volume for each of other oil pipes and pipe billets increased from approximately 56,500 tonnes and 219,000 tonnes for FY2017, respectively, to approximately 64,500 tonnes and 284,800 tonnes for FY2018, respectively, representing an increase of approximately 14.2%, and 30.0%, respectively. Our other oil pipes mainly comprise of plain-end pipe which would be manufactured into OCTG. Therefore, sales volume of other oil pipes increased which was generally in line with the market demand of OCTG. Our increase in sales of pipe billets was mainly due to sales of pipe billets to Customer F, one of our major customers during FY2018 and principally engages in iron and steel production and its related processing and listed on the Shanghai Stock Exchange. We have entered into a strategic cooperation framework agreement with Customer F for the supply of pipe billets. Please refer to the section headed "Business — Customers — Domestic Sales — Strategic cooperation framework agreement with Customer F" for further details of such strategic cooperation framework agreement. The contribution of increase in sales volume to our revenue growth in FY2018 was to a less extent.

Cost of sales

Our cost of sales increased by approximately RMB668.1 million, or approximately 36.4%, from approximately RMB1,835.2 million for FY2017 to approximately RMB2,503.3 million for FY2018. Such increase was primarily attributable to the increase in (i) direct material costs and purchase costs of approximately 43.4% from approximately RMB1,206.6 million for FY2017 to RMB1,730.4 million for FY2018 as a result of our increased sales volume of other oil pipes and pipe billets; (ii) labour costs of approximately 59.5% from approximately RMB53.6 million for FY2017 to approximately RMB85.5 million for FY2018 as a result of increase in average salary of our staff; and (iii) other cost of sales of approximately 27.0% from approximately RMB270.1 million for FY2017 to approximately RMB342.9 million for FY2018 primarily as a result of our increase in purchases of metallurgical auxiliary materials due to the increase in our production of pipe billets.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB149.8 million, or approximately 33.9%, from approximately RMB441.7 million for FY2017 to approximately RMB591.5 million for FY2018. Our gross profit for (i) OCTG increased by approximately 59.8% from approximately RMB269.3 million for FY2017 to approximately RMB430.2 million for FY2018; (ii) other oil pipes increased by approximately 46.4% from approximately RMB39.5 million for FY2017 to approximately RMB57.8 million for FY2018; and (iii) pipe billets decreased by approximately 22.2% from approximately RMB132.9 million for FY2017 to approximately RMB103.4 million for FY2018.

Our overall gross profit margin remained stable at approximately 19.4% for FY2017 and 19.1% for FY2018.

Our gross profit margin for OCTG increased from approximately 20.0% for FY2017 to approximately 25.2% for FY2018. Such increase was mainly due to (i) the increase in the average selling prices of OCTG of approximately 29.3%, driven by the increase in market demand, which was higher than the increase in average unit production cost of approximately 20.9%; (ii) the increase in average unit production cost was lower when compared to the increase in the average selling prices was due to the increase in our utilisation rate of OCTG production line from 86.0% in FY2017 to 94.5% in FY2018 and we enjoyed economies of scale which our fixed costs per unit of the OCTG decreased; and (iii) the percentage of sales of high-end OCTG of our total OCTG sales increased from 56.3% in FY2017 to 70.6% in FY2018.

Our gross profit margin for pipe billets decreased from approximately 19.0% for FY2017 to approximately 9.9% for FY2018. Such decrease was mainly due to the increase in the price of raw material for production of pipe billets, especially scrap metal and metallurgical auxiliary materials.

Other income

Our other income decreased by approximately RMB6.0 million, or approximately 53.2%, from approximately RMB11.4 million for FY2017 to approximately RMB5.3 million for FY2018, mainly because of the decrease in one-off government grants of approximately RMB8.2 million. This was because (i) the amount of government grant obtained was on a case by case basis and the requirements of government grants varies year by year; and (ii) the increase in net foreign exchange loss of approximately RMB1.2 million for FY2018 as a result of fluctuation of RMB against the foreign currencies we invoiced for overseas sales.

Selling expenses

Our selling expenses increased by approximately RMB6.8 million, or approximately 13.6%, from approximately RMB49.8 million for FY2017 to approximately RMB56.6 million for FY2018. This increase was primarily due to the increase in logistics expenses incurred from approximately RMB39.8 million for FY2017 to approximately RMB48.0 million for FY2018 as sales increase. We did not incur any commission to sales agent for FY2018 as our marketing team was able to source sales and we were able to achieve our sales target without engaging sales agent.

Administrative expenses

Our administrative expenses increased by approximately RMB39.6 million, or approximately 54.9%, from approximately RMB72.2 million for FY2017 to approximately RMB111.8 million for FY2018. This increase was primarily due to (i) the increase in our other taxes and surcharge of approximately RMB8.0 million as a result of the increase in our revenue and gross profit; (ii) the increase in R&D expenses of approximately RMB4.9 million due to the increase in the staff cost under R&D for new and improved products; and (iii) the incurrence of Listing expenses of approximately RMB7.6 million.

Finance costs

Our finance costs increased by approximately RMB16.4 million or approximately 28.9%, from approximately RMB56.8 million for FY2017 to approximately RMB73.2 million for FY2018 due to the increase in the balance of interest-bearing bank borrowings from FY2017 to FY2018.

Income tax expense

Our income tax expense increased by approximately RMB12.0 million, or approximately 28.4%, from approximately RMB42.1 million for FY2017 to approximately RMB54.1 million for FY2018. The increase was mainly due to the increase in our profit before tax by approximately RMB80.9 million attributable to the factors discussed in the foregoing. Our effective tax rate remained stable at approximately 15.3% and 15.2% for FY2017 and FY2018, respectively.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year increased by approximately RMB69.0 million, from approximately RMB232.2 million for FY2017 to approximately RMB301.2 million for FY2018. Our net profit margin decreased slightly from approximately 10.2% for FY2017 to approximately 9.7% for FY2018 primarily due to the slight decrease in overall gross profit margin discussed above and the one-off listing expenses of approximately RMB7.6 million incurred for FY2018.

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our revenue increased by approximately RMB1,529.0 million, or approximately 204.4%, from approximately RMB747.9 million for FY2016 to approximately RMB2,276.9 million for FY2017. Such increase was primarily due to a significant increase in revenue from sales of (i) OCTG by approximately RMB750.3 million, or approximately 126.1%, from approximately RMB594.8 million for FY2016 to approximately RMB1,345.2 million for FY2017; and (ii) pipe billets by approximately RMB691.3 million, or approximately 7,130.8%, from approximately RMB9.7 million for FY2016 to approximately RMB701.0 million for FY2017. The increase in our revenue was, to a large extent, contributed by the increase in overall sales volume of our products, and, to a lesser extent, the increase in average selling price:

(i) our sales volume for each of OCTG, other oil pipes and pipe billets increased from approximately 166,100 tonnes, 43,300 tonnes and 3,600 tonnes for FY2016, respectively, to approximately 266,900 tonnes, 56,500 tonnes and 219,000 tonnes for FY2017, respectively, representing an increase of approximately 60.7%, 30.5% and 5,983.3%, respectively. The increase in sales volume of OCTG, other oil pipes and pipe billets was mainly due to increase in demand in OCTG market, in particular, increase in sales to certain members of one of the PRC Big-3 NOC. Our sales volume in OCTG to members of one of the PRC Big-3 NOC increased by approximately 55.2% in FY2017 as compared to FY2016, and which contributed to an increase of approximately 50.0% of the increase in our sales volume of OCTG in FY2017 as compared with that in FY2016. According to the CIC Report, the sales value of OCTG in the PRC increased from approximately RMB9.4 billion in FY2016 to approximately RMB16.5 billion in FY2017. Driven by the market demand and upon completion of the integration, we were able to satisfy customers' demand and achieve a higher utilisation rate in FY2017 as compared to FY2016. Our increase in sales of pipe billets was also due to sales of pipe billets to Customer F, one of our major customers during FY2017 and principally engages in iron and steel production and its related processing and listed on the Shanghai Stock Exchange. We have entered into a strategic cooperation framework agreement with Customer F for the supply of pipe billets. Please refer to the section headed "Business — Customers — Domestic Sales — Strategic cooperation framework agreement with Customer F" for further details of such strategic cooperation framework agreement. The increase in sales volume was the most dominating factor contributing to our revenue growth in FY2017;

(ii) the average selling price of each of OCTG, other oil pipes and pipe billets increased from approximately RMB3,581 per tonne, RMB3,304 per tonne and RMB2,665 per tonne for FY2016, respectively, to approximately RMB5,040 per tonne, RMB4,083 per tonne and RMB3,201 per tonne for FY2017, respectively, representing an increase of approximately 40.7%, 23.6% and 20.1%, respectively. Please refer to the section headed "Business — Our Products — Sales Quantities, Average Selling Prices and Product Life Cycle" for further details. The increase of our product prices was mainly driven by (i) favourable market conditions, in particular, the market price of our products (namely OCTG, other oil pipes and pipe billets) had demonstrated an increasing trend resulting from the rebound and increase in demand in the oilfield services and equipment industry, according to the CIC Report; (ii) the increase in raw material prices of scrap metal. According to the CIC Report, the price of scrap metal increased from RMB1,550.6 per tonne in 2016 to RMB1,876.9 per tonne in 2017; and (iii) the increase in the proportion of sales of high-end OCTG which were of a higher average selling price than OCTG with standard specifications. The percentage of sales of high-end OCTG of our total OCTG sales increased from 49.4% in FY2016 to 56.3% in FY2017. The contribution of increase in average selling price of our products to our revenue growth in FY2017 to a less extent; and

(iii) as we were able to achieve full integration of our business model covering from upstream to downstream production including the production of pipe billets, other oil pipes and OCTG, it allowed us to satisfy the demand from our customers on different types of products. As the demand for our products increased, the utilisation rate of the production line of each of our products also increased. Please refer to the section headed "Business — Production — Production Capacity and Utilisation Rate" for further details.

Cost of sales

Our cost of sales increased by approximately RMB1,133.5 million, or approximately 161.6%, from approximately RMB701.7 million for FY2016 to approximately RMB1,835.2 million for FY2017. Such increase was primarily attributable to the increase in (i) direct material costs and purchase costs of approximately 156.8% from approximately RMB469.9 million for FY2016 to approximately RMB1,206.6 million for FY2017 as a result of our increased sales volume of OCTG, other oil pipes and pipe billets; (ii) cost of utilities of approximately 226.7% from approximately RMB76.8 million for FY2016 to approximately RMB250.9 million for FY2017 as a result of our increase in consumption of energy as our production increase; and (iii) other cost of sales of approximately 322.7% from approximately RMB63.9 million for FY2016 to approximately RMB270.1 million for FY2017 primarily as a result of our increase in purchases of metallurgical auxiliary materials due to the increase in our production of pipe billets.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB395.5 million, or approximately 855.8%, from approximately RMB46.2 million for FY2016 to approximately RMB441.7 million for FY2017. Our gross profit for (i) OCTG increased by approximately 579.2% from approximately RMB39.6 million for FY2016 to approximately RMB269.3 million for FY2017; (ii) other oil pipes increased by approximately 618.0% from approximately RMB5.5 million for FY2016 to approximately RMB39.5 million for FY2017; and (iii) pipe billets increased by approximately 12,378.7% from approximately RMB1.1 million for FY2016 to approximately RMB132.9 million for FY2017.

Our overall gross profit margin increased by approximately 212.9% from approximately 6.2% for FY2016 to approximately 19.4% for FY2017. Gross profit margin of each of OCTG, other oil pipes and pipe billets increased from FY2016 to FY2017. Our overall gross profit margin increase was dominantly contributed by the impact arising from the increase in average selling price of our products, driven by the increase in market demand, which was higher than average unit production cost; followed by the economies of scale enjoyed due to the increase in our utilisation rate of our production lines, and, to the least extent, the increase in proportion of sales of high-end OCTG.

Our gross profit margin for OCTG increased from approximately 6.7% for FY2016 to approximately 20.0% for FY2017. Such increase was mainly due to (i) the increase in the average selling prices of OCTG of approximately 40.7%, driven by increase in market demand in OCTG, which was higher than the increase in average unit production cost of approximately 20.6%; (ii) the increase in average unit production cost was lower when compared to the increase in the average selling prices was due to the increase in our utilisation rate of OCTG production line from 57.0% in FY2016 to 86.0% in FY2017 and we enjoyed economies of scale which our fixed costs per unit of the OCTG decreased; and (iii) the percentage of sales of high-end OCTG of our total OCTG sales increased from 49.4% in FY2016 to 56.3% in FY2017.

Our gross profit margin for other oil pipes increased from approximately 3.8% for FY2016 to approximately 17.1% for FY2017. Such increase was mainly due to (i) the increase in the average selling prices of our other oil pipes of approximately 23.6%, such increase was driven by increase in market demand in OCTG which resulted in the increase in demand for other oil pipes, which was higher than the increase in average unit production cost of other oil pipes of approximately 6.5%; and (ii) increase in utilisation rate of other oil pipes production line from 54.8% in FY2016 to 85.6% in FY2017 which had a diluting effect on the increase in average unit production cost of other oil pipes.

Our gross profit margin for pipe billets increased from approximately 11.0% for FY2016 to approximately 19.0% for FY2017. Such increase was mainly due to (i) the strong market demand on pipe billets which led to the increase in utilisation rate of pipe billets production line from 25.3% in FY2016 to 81.7% in FY2017 which had a diluting effect on the increase in average unit production cost of pipe billets; and (ii) the increase in the average selling prices of our pipe billets of approximately 20.1%, which was higher than the increase in average unit production cost of pipe billets of approximately 9.4%. The main reason for the strong demand and increase in average selling prices of our pipe billets was primarily due to, according to CIC Report, after the Supply-side reform, a large number of non-compliant steel companies were shut down, market supply decreased, and steel prices increased. As such, the price of pipe billets increased.

Other income

Our other income decreased by approximately RMB7.7 million, or approximately 40.3%, from approximately RMB19.1 million for FY2016 to approximately RMB11.4 million for FY2017, mainly because (i) decrease in government grants of approximately RMB0.9 million due to the decrease in subsidies for employment stabilisation subsidies and science and technology projects; (ii) decrease in net gain on disposal of property, plant and equipment of approximately RMB1.1 million mainly due to the non-recurrence of the one-off compensation from a neighbouring factory for the demolition of our auxiliary descaling plant in FY2016; and (iii) we incurred a net foreign exchange loss of approximately RMB0.4 million for FY2017 as a result of the appreciation of RMB against the foreign currencies we invoiced for overseas sales during the year FY2016 while we incurred a net foreign exchange gain in FY2016 of approximately RMB1.3 million.

Selling expenses

Our selling expenses increased by approximately RMB24.8 million, or approximately 99.4%, from approximately RMB25.0 million for FY2016 to approximately RMB49.8 million for FY2017. This increase was primarily due to the increase in logistics expenses incurred from approximately RMB15.7 million for FY2016 to approximately RMB39.8 million for FY2017 as sales increased.

Administrative expenses

Our administrative expenses increased by approximately RMB14.9 million, or approximately 26.0%, from approximately RMB57.3 million for FY2016 to approximately RMB72.2 million for FY2017. This increase was primarily due to the increase in (i) our other taxes and surcharge of approximately RMB5.2 million as a result of the increase in our gross profit; (ii) R&D expenses of approximately RMB4.0 million due to the increase in the staff cost under R&D; (iii) staff costs of approximately RMB2.3 million as a result of the increase in average salary of our staffs; and (iv) increase in travelling and accommodation expenses of approximately RMB2.3 million due to increase effort in building customer relationship.

Finance costs

Our finance costs increased by approximately RMB10.7 million or approximately 23.3%, from approximately RMB46.1 million for FY2016 to approximately RMB56.8 million for FY2017. This increase was primarily due to the incurrence of more interest expenses on borrowings and bills discounting of bills receivables resulting from increase in our sales in FY2017.

Income tax expense

Our income tax expense increased by approximately RMB52.2 million, or approximately 518.8%, from a credit of income tax of approximately RMB10.1 million for FY2016 to an income tax expense of approximately RMB42.1 million for FY2017. The increase was mainly due to increase in our profit before tax by approximately RMB337.3 million attributable to the factors discussed in the foregoing. Our effective tax rate remained stable at approximately 16.0% and 15.3% for FY2016 and FY2017, respectively.

Profit and total comprehensive income for the year

As a result of the foregoing, our profit and total comprehensive income for the year increased from a loss of approximately RMB53.0 million for FY2016 to approximately RMB232.2 million for FY2017. Our net profit margin was not applicable for FY2016 as we recorded loss for the year during FY2016. The net loss in FY2016 was primarily due to the relatively less favourable market conditions of the OCTG industry and the integration of production of other oil pipes into our Group and more resources was allocated to such integration which affected the overall performance of our Group. Our net profit margin was approximately 10.2% for FY2017 as our gross profit increased as a result of the reasons set out above.

LIQUIDITY AND CAPITAL RESOURCES

Our principal cash requirement is for our working capital needs as well as capital expenditure. During the Track Record Period, we principally financed our working capital and other liquidity requirements through a combination of cash generated from operations and bank and other borrowings. In the future, we expect to continue relying on cash flows from operation, the net proceeds from the Global Offering and other debt to fund our working capital needs and finance part of our business expansion.

Our capital structure represents equity attributable to Shareholders, comprising issued share capital and reserves including retained profits. Our Directors shall review our capital structure regularly in order to balance our overall capital structure through new share issues and fund raising through new loan borrowings with reference to the capital costs and the associated risks.

Cash flows

The following table sets forth a summary of our cash flows during the years/periods indicated:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Net cash generated from/(used in) operating activities	(19,200)	(12,601)	186,793	243,185	74,043
Net cash used in investing activities	(29,046)	(77,198)	(504,486)	(142,046)	(219,866)
Net cash generated from/(used in) financing activities	(44,000)	230,907	286,584	(114,176)	360,244
Net (decrease)/increase in cash and cash equivalents	(92,246)	141,108	(31,109)	(13,037)	214,421
Effect of exchange rate changes on cash and cash equivalents	(393)	375	(362)	(76)	111
Cash and cash equivalents at the beginning of the year/period	113,245	20,606	162,089	162,089	130,618
Cash and cash equivalents at the end of the year/period	20,606	162,089	130,618	148,976	345,150

Net cash (used in)/generated from operating activities

Cash flows from operating activities reflects profit/(loss) before taxation for the year adjusted for (i) depreciation and amortisation, finance costs, interest income, net gain or loss on disposal of property, plant and equipment and amortisation of deferred income, which lead to the operating cash flow before changes in working capital; and (ii) the effects of cash flows arising from changes in working capital, include increase or decrease in inventories, trade and bill receivables, prepayment deposit and other receivables, trade and bill payables, other payables and accruals and net increase or decrease in restricted bank deposits, which result in cash used in/generated from operations.

For FY2016, our net cash used in operating activities of approximately RMB19.2 million was primarily resulted from (i) our operating cash flow before changes in working capital amounted to approximately RMB48.7 million; (ii) adjusted by net outflow of working capital amounted to approximately RMB67.9 million. Change in working capital primarily reflected the (a) increase in inventories of approximately RMB25.7 million; (b) increase in trade and bills receivables of approximately RMB103.0 million; (c) decrease in prepayment, deposits and other receivables of approximately RMB29.5 million; (d) decrease in trade and bills payables of approximately RMB28.8 million; (e) increase in other payables and accruals of approximately RMB43.8 million; and (f) net decrease in restricted deposit of approximately RMB16.2 million. We recorded net cash used in operating activities for FY2016 mainly because (i) we incurred a net loss in FY2016 as a result of the relatively less favourable market conditions of the OCTG industry, and the transition period of the integration of production of other oil pipes into our Group and more resources were allocated to such integration which affected the overall performance of our Group. Please refer to the paragraphs headed "Review of Historical Operating Results — Period to period Comparison of Results of Operations — Year ended 31 December 2017 compared to year ended 31 December 2016" and "Key Factors Affecting our Results of Operation and Financial Condition — Integration of Production of Other Oil Pipes into our Group" in this section for further details; (ii) upon completion of the integration of production of other oil pipes into our Group close to the end of FY2016, more sales were made in the year end and significant amount of trade receivables were recognised and not settled before year end, which led to increase in trade and bills receivables; and (iii) while satisfying the increased sales order near the end of FY2016, production and purchase of raw materials were made before that, and we had to settle larger amount of purchase of raw materials close to the year end, which, in turn, led to the increase in inventory and decrease in trade and bills payables. The above factors led to a cash outflow under the change in working capital.

For FY2017, our net cash used in operating activities of approximately RMB12.6 million was primarily resulted from (i) our operating cash flow before changes in working capital amounted to approximately RMB395.8 million; (ii) adjusted by net outflow of working capital amounted to approximately RMB408.4 million. Change in working capital primarily reflected (a) the increase in inventories of approximately RMB115.0 million; (b) increase in trade and bills receivables of approximately RMB315.7 million; (c) decrease in prepayment, deposits and other receivables of approximately RMB10.4 million; (d) increase in trade and bills payables of approximately RMB108.4 million; (e) increase in other payables and accruals of approximately RMB37.7 million; and (f) net increase in restricted deposit of RMB134.2 million. We recorded net cash used in operating activities for FY2017 mainly because of (i) the increase in inventories primarily as a result of the increase in price of raw materials and increase in our production along with increase in sales; (ii) the increase in trade and bills receivables, in particular, the increase in balance of bills receivables as a result of the increase in sales of OCTG and other oil pipes to members of one of the PRC Big-3 NOC as such customers increased settlement of their payments by way of acceptance bills; and (iii) increase in restricted deposits primarily as a result of increase in interest-bearing bank borrowings.

For FY2018, our net cash generated from operating activities of approximately RMB186.8 million was primarily resulted from (i) our operating cash flow before changes in working capital amounted to approximately RMB490.7 million; (ii) adjusted by net outflow of working capital amounted to approximately RMB252.9 million. Change in working capital primarily reflected (a) the increase in inventories of approximately RMB44.7 million; (b) increase in trade and bills receivables of approximately RMB75.1 million; (c) increase in prepayment, deposits and other receivables of approximately RMB31.2 million; (d) decrease in trade and bills payables of approximately RMB10.8 million; (e) decrease in other payables and accruals of approximately RMB63.7 million; and (f) net increase in restricted deposits of RMB27.4 million.

For 6M2018, our net cash generated from operating activities of approximately RMB243.2 million was primarily resulted from (i) our operating cash flow before changes in working capital amounted to approximately RMB254.8 million; (ii) adjusted by net inflow of working capital amounted to approximately RMB15.0 million. Change in working capital primarily reflected (a) the increase in inventories of approximately RMB55.8 million; (b) increase in trade and bills receivables of approximately RMB159.8 million; (c) increase in prepayment, deposits and other receivables of approximately RMB29.4 million; (d) increase in trade and bills payables of approximately RMB100.6 million; (e) increase in other payables and accruals of approximately RMB105.9 million; and (f) net decrease in restricted deposits of approximately RMB53.5 million.

For 6M2019, our net cash generated from operating activities of approximately RMB74.0 million was primarily resulted from (i) our operating cash flow before changes in working capital amounted to approximately RMB216.6 million; (ii) adjusted by net outflow of working capital amounted to approximately RMB128.7 million. Change in working capital primarily reflected (a) the decrease in inventories of approximately RMB34.6 million; (b) increase in trade and bills receivables of approximately RMB208.6 million; (c) decrease in prepayment, deposits and other receivables of approximately RMB14.9 million; (d) decrease in trade and bills payables of approximately RMB69.1 million; (e) decrease in other payables and accruals of approximately RMB23.5 million; and (f) net decrease in restricted deposits of approximately RMB122.9 million.

Net cash used in investing activities

Cash flows used in investing activities mainly relate to payments for acquisition of property, plant and equipment.

For FY2016, we had net cash used in investing activities of approximately RMB29.0 million, which was primarily attributable to payments for acquisition of property, plant and equipment of approximately RMB32.1 million.

For FY2017, we had net cash used in investing activities of approximately RMB77.2 million, which was primarily attributable to payments for acquisition of property, plant and equipment of approximately RMB78.7 million.

For FY2018, we had net cash used in investing activities of approximately RMB504.5 million, which was primarily attributable to payments for Phase One Expansion at our Bohai New District Factory of approximately RMB506.0 million.

For 6M2018, we had net cash used in investing activities of approximately RMB142.0 million, which was primarily attributable to payments for acquisition of property, plant and equipment of approximately RMB142.8 million, particularly for the payment of Phase One Expansion at our Bohai New District Factory.

For 6M2019, we had net cash used in investing activities of approximately RMB219.9 million, which was primarily attributable to payments for acquisition of property, plant and equipment of approximately RMB221.0 million, particularly for the payment of Phase One Expansion at our Bohai New District Factory.

Net cash (used in)/generated from financing activities

Cash flows (used in)/generated from financing activities includes proceeds from interest-bearing borrowings, repayments of interest-bearing bank borrowings, distribution paid and interest paid.

For FY2016, we had net cash used in financing activities of approximately RMB44.0 million, which was primarily attributable to repayments of interest-bearing bank borrowings of approximately RMB562.2 million and interest paid of approximately RMB46.0 million, partially offset by the proceeds from new interest-bearing bank borrowings of RMB564.1 million.

For FY2017, we had net cash generated from financing activities of approximately RMB230.9 million, which was primarily attributable to the proceeds from new interest-bearing bank borrowings of approximately RMB1,221.3 million, partially offset by repayments of interest-bearing bank borrowings of approximately RMB923.2 million and interest paid of approximately RMB54.5 million

For FY2018, we had net cash generated from financing activities of approximately RMB286.6 million, which was primarily attributable to the proceeds from new interest-bearing bank borrowings of approximately RMB1,782.5 million and the proceeds received from a group reorganisation of approximately RMB27.9 million, partially offset by repayments of interest-bearing bank borrowings of approximately RMB1,234.3 million, loans granted to a related party of RMB170.0 million, distribution paid of approximately RMB47.4 million and interest paid of approximately RMB71.3 million.

For 6M2018, we had net cash used in financing activities of approximately RMB114.2 million, which was primarily attributable to repayment of interest-bearing bank borrowings of approximately RMB741.7 million, loans granted to a related party (i.e. Dalipal Group) of RMB170.0 million and interest paid of approximately RMB35.7 million, partially offset by proceeds from new interest-bearing bank borrowings of approximately RMB835.8 million.

For 6M2019, we had net cash generated from financing activities of approximately RMB360.2 million, which was primarily attributable to the proceeds from new interest-bearing bank borrowings of RMB1,281.4 million and proceeds from issuance of Shares pursuant to the Reorganisation in respect of the subscription of Shares by Mr. Yau of approximately RMB16.8 million, partially offset by repayments of interest-bearing bank borrowings of approximately RMB882.5 million and interest paid of approximately RMB55.3 million.

NET CURRENT ASSETS AND LIABILITIES

The following table sets forth our current assets and current liabilities of the consolidated statements of financial position as at the respective dates indicated:

	At 31 December			At 30 June	As at 31 August
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current assets					
Inventories	260,009	374,963	419,670	385,056	424,022
Trade and bills receivables	242,893	558,581	633,645	842,198	1,094,240
Prepayments, deposits and other receivables	63,827	63,013	110,349	76,428	38,738
Income tax recoverable	1,767	2	1,012	—	26,361
Cash at bank and on hand	119,578	395,267	391,207	482,862	222,081
Total current assets	688,074	1,391,826	1,555,883	1,786,544	1,805,442
Current liabilities					
Trade and bills payables	298,253	406,632	395,798	326,670	348,800
Other payables and accruals	88,279	139,861	303,239	276,733	285,398
Loan from a related party	13,500	831	—	—	—
Interest-bearing bank borrowings	492,767	740,810	1,345,010	1,322,453	1,331,293
Lease liabilities	—	—	—	895	903
Current taxation	—	1,109	—	7,909	5,278
Total current liabilities	892,799	1,289,243	2,044,047	1,934,660	1,971,672
Net current (liabilities)/assets	(204,725)	102,583	(488,164)	(148,116)	(166,230)

Our current assets consist of inventories, trade and bills receivables, prepayments, deposits and other receivables, income tax recoverable and cash at bank and on hand. Our current liabilities consist of trade and bills payables, other payable and accruals, loan from a related party, interest-bearing bank borrowings and current taxation.

We recorded net current liabilities as at 31 December 2016 mainly because of (i) our net cash used in operating activities of approximately RMB19.2 million for FY2016; (ii) our payments for acquisition of property, plant and equipment and lease prepayments of RMB32.1 million; and (iii) the current portion of long-term bank loans of approximately RMB155.0 million that became due within one year after 31 December 2016.

Our net current assets increased by approximately RMB307.3 million from net current liabilities of approximately RMB204.7 million as at 31 December 2016 to net current assets of approximately RMB102.6 million as at 31 December 2017. The increase was primarily due to (i) increase in inventories of approximately RMB115.0 million; (ii) increase in trade and bills receivables of approximately RMB315.7 million; (iii) increase in cash at bank and on hand of approximately RMB275.7 million; and (iv) decrease in loan from a related party of approximately RMB12.7 million, partially offset by (i) increase in trade and bills payables of approximately RMB108.4 million; (ii) increase in other payable and accruals of approximately RMB51.6 million; and (iii) increase in interest-bearing bank borrowings of approximately RMB248.0 million.

Our net current assets decreased by approximately RMB590.7 million from net current assets of approximately RMB102.6 million as at 31 December 2017 to net current liabilities of approximately RMB488.2 million as at 31 December 2018. The net current liabilities were primarily due to (i) increase in other payable and accruals of approximately RMB163.4 million arising from the dividend payable of approximately RMB231.8 million, which was declared in FY2018 and is expected to be paid in full prior to Listing; (ii) increase in short-term interest-bearing bank borrowings of approximately RMB252.7 million and increase of current portion of long-term bank loans of approximately RMB351.5 million, both of which were to support our operating, business development and Phase One Expansion of our Bohai New District Factory, partially offset by (i) increase in inventories of approximately RMB44.7 million mainly due to the increase in price of raw materials and increase in our production along with increase in sales; (ii) increase in trade and bills receivables of approximately RMB75.1 million mainly due to the increase in sales volume; and (iii) increase in prepayments, deposits and other receivables of approximately RMB47.3 million mainly due to the increase in VAT recoverable as a result of the increase in non-current asset attributable from Phase One Expansion at our Bohai New District Factory.

Our net current liabilities decreased by approximately RMB340.1 million from approximately RMB488.2 million as at 31 December 2018 to RMB148.1 million as at 30 June 2019. The decrease was primarily due to (i) we have generated net operating cash inflow of approximately RMB74.0 million; and (ii) we were able to obtain new long-term bank loans or restructure short-term and long-term loan composition to finance our operation.

Our net current liabilities increased by approximately RMB18.1 million from approximately RMB148.1 million as at 30 June 2019 to RMB166.2 million as at 31 August 2019.

Our net current liabilities as at 31 December 2016, 31 December 2018, 30 June 2019 and 31 August 2019 were mainly attributable to trade and bills payables, other payables and accruals and our short-term interest-bearing bank borrowings repayable in the next 12 months. They were primarily a result of the use of short-term interest-bearing bank borrowings to finance general working capital needs. As at 31 August 2019, approximately 64.3% of our borrowings were short-term loans and were repayable in the next 12 months. For further details of the risks associated with net current liabilities, please refer to the section headed "Risk Factors — Risks Relating to Our Business and Industry — Our borrowing levels, interest payment obligations and net current liabilities could limit the funds available to us for business purposes".

Given the reasons as set out in the paragraph headed "Working Capital Sufficiency" below, we believe our business operations and financial condition will not be materially and adversely affected by our net current liabilities position. Our Directors confirm that (i) we will continue to closely monitor our net current liabilities position and optimise the composition of our indebtedness in order to achieve net current assets position; and (ii) when any of the above-mentioned short-term or current portion of long-term interest-bearing bank borrowings become due, we will either use our internally generated cash to repay them and/or refinance such short-term or current portion of long-term interest-bearing bank borrowings with long-term interest-bearing bank borrowings.

WORKING CAPITAL SUFFICIENCY

In spite of the net current liabilities and high debt to equity ratio as at 31 December 2018 and 30 June 2019, our Directors consider that they had not, and will not impose material adverse impact on our financial and operational status, due to the following factors:

(i) our interest-bearing borrowings increased during the Track Record Period were mainly due to our business development and Phase One Expansion at our Bohai New District Factory, which was generally in line with our increase in revenue and expansion plan;

(ii) the payment of land resumption compensation in the amount approximately of RMB205.6 million. Pursuant to the formal land resumption compensation agreement, the payment of the land resumption compensation and related payments will be made in two installments. The first installment of RMB150.0 million has been paid to us the business day after the execution of the agreement and the second installment for the remaining amount of approximately RMB55.6 million will be paid within five business days after the keys to the relevant properties have been provided to the relevant government authority. Please refer to the section headed "Business — Properties" for further details;

(iii) the net cash generated from operating activities was sufficient to cover our various operating expenses and the finance cost. With our strong growth and continuous expansion, we expect to generate operating cash flow and has sufficient financial resources to run our business operation and fulfil our obligations. We would continue to have sufficient internally generated cash from operating activities;

(iv) our other payables and accruals for the 6M2019 mainly consisted of distribution payable of approximately RMB231.8 million, which is non-operating in nature and is expected to be made prior to Listing;

(v) our Group's interest coverage ratio was above five times for the FY2017, FY2018 and 6M2019;

(vi) based on historical renewal rates as well as current communications with the relevant banks, our Directors believe all of interest-bearing bank borrowings and banking facilities as at 30 June 2019 can be successfully renewed upon maturity if we consider necessary;

(vii) taking into account the net proceeds to be received from the Global Offering, we expect our debt to equity ratio immediately upon Listing will be less than 86.0%;

(viii) to improve our net current liabilities position as at 31 December 2018, we have liaised with relevant banks to restructure short-term and long-term loan composition, especially by refinancing short term interest-bearing bank borrowings with long-term interest-bearing bank borrowings and/or by increasing the amount of long-term loans applied to long-term capital expenditure or construction projects and to finance our general working capital needs. In this respect:

(a) in January 2019, we have borrowed one long-term interest-bearing bank borrowing in the amount of RMB100.0 million with maturing date in December 2021. Furthermore, in March 2019, one of our existing lenders has approved one new long term interest-bearing bank borrowing in the amount of RMB150.0 million. We have entered into a loan agreement in respect of such loan in April 2019;

(b) in March 2019, one of our existing lenders has confirmed its intention to provide a loan to us to finance the Phase Two Expansion at our Bohai New District Factory once we have obtained the necessary approvals and/or certificates from the relevant PRC government authorities such as, approval on environmental assessment, project record-filing and construction commencement permit in relation to Phase Two Expansion construction;

(c) as at Latest Practicable Date, we had restructured certain short term interest-bearing bank borrowings as at 31 December 2018 in the amount of RMB300.0 million to long-term interest bearing bank borrowings and this further improve our net assets/liabilities position;

(ix) our revenue and net profit grew during the Track Record Period, which enabled us to obtain refinancing or to fund for repayment of debts when due. We expect our business will continue to grow, in particular, after Phase One Expansion has commenced commercial production. As such, we expect we have no practical difficulties in obtaining refinancing or to fund for repayment of debts; and

(x) we maintained good relationships and credit histories with certain banks and had throughout the Track Record Period obtained considerable interest-bearing bank borrowings and banking facilities. Our Directors believe that such relationships will continue and as our business expands we expect we have no practical difficulties in obtaining new loans and banking facilities from banks to maintain or improve our working capital position.

We plan to improve out working capital position and cash flow from operating activities after Listing as follows:

(i) upon each of our OCTG production line and other oil pipes production line under Phase One Expansion had commenced commercial production, the total designed annual production capacity of our OCTG and other oil pipes has increased by 50% and 120%, respectively. Upon the commencement of commercial production in respect of our Phase Two Expansion, which is expected to be in or around August 2021 for our pipe billets production line and June 2022 for each of our OCTG and other oil pipes production line, our total designed annual production capacity for OCTG and other oil pipes will increase further by approximately 33.3% and 45.5%, respectively, and our total designed annual production capacity for pipe billets will increase by approximately 66.7%. We consider that there will be sufficient demand to support the expansion of such designed annual production capacity for OCTG and other oil pipes given the reasons set out in the section headed "Business — Production Expansion Plan". As such, such expansions would facilitate us to increase our production and sales of our products and thereby increase our revenue which will be a driver to improve our cash flow from operating activities;

(ii) we intend to expand our overseas sales team in the PRC and establish an overseas sales team in Hong Kong. Such expansion will facilitate us to increase our overseas sales and thereby increase our revenue which will be a driver to improve our cash flow from operating activities;

(iii) our revenue and net profit grew during the Track Record Period, which help us to obtain refinancing or to fund for repayment of debts when due. We expect our business will continue to grow, in particular, after Phase One Expansion has commenced commercial production. As such, we expect we have no practical difficulties in obtaining refinancing or to fund for repayment of debts;

(iv) as for the expected capital expenditure for our Phase Two Expansion, which is one of the major capital expenditure after Listing, we expect that approximately 30.0% of such capital expenditure will be satisfied by the net proceeds from the Global Offering. The remaining part of the expenditure is expected to be satisfied by our internal resources and/or external financing. As mentioned above, one of our existing lending banks has confirmed its intention to provide a loan to us to fund the Phase Two Expansion at our Bohai New District Factory. As such, we do not anticipate that our working capital position will be materially affected by Phase Two Expansion;

(v) we will continue to liaise with relevant banks from time to time to restructure short-term and long-term loan composition, especially by refinancing short term interest-bearing bank borrowings with long-term interest-bearing bank borrowings from time to time as and when needed to improve our working capital position;

(vi) we would strictly monitor our cash receipt and cash payment to ensure positive operating cash flow and to achieve a better average trade receivable turnover days and average trade payable turnover days.

(vii) we maintained good relationships and credit histories with certain banks and had throughout the Track Record Period obtained considerable interest-bearing bank borrowings and banking facilities. Our Directors believe that such relationships will continue and as our business expands we expect we have no practical difficulties in obtaining new loans and banking facilities from banks to maintain or improve our working capital position; and

(viii) we will also strive to increase our cash at bank and on hand over time to improve our working capital position.

Our Directors are of the opinion that, taking into account the financial resources available to our Group, including the existing balance of cash and cash equivalents, unutilised bank facilities, the internally generated funds, additional bank and debt financing we would be able to obtain and the estimated net proceeds to be received by us from the Global Offering, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

Save as disclosed in the section headed "Risk Factors" and Note 24 of the Accountants' Report contained in Appendix I to this prospectus, our Directors are not aware of any other factors that would have a material impact on our liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed "Future Plans and Use of Proceeds".

Liquidity management measures

We have formulated and adopted the following measures to strengthen our liquidity management:

(a) ***Regular update of liquidity and working capital policy:*** we have designated our finance department to review regularly and update our liquidity and working capital policies to ensure that it is aligned with our business plan and financial position, and report to our Board on the status of working capital and liquidity management concerned;

(b) ***Preparation of detailed cash flow forecasts:*** in the course of our business operations, we require our finance department to prepare weekly and monthly cash flow forecasts, which are reviewed and approved by our accounting manager. These cash flow forecasts set forth, among other things, (i) the outstanding repayment amounts and repayment schedules of our bank borrowings; (ii) the trade receivables from, and the credit periods we offer to, our customers; (iii) the relevant payment schedules of our operational expenses including product procurement costs, staff salaries and utilities expenses; and (iv) the relevant payment schedules of our capital expenditures including leasehold improvements. We monitor and cross check the accuracy of these cash flow forecasts on a weekly and monthly basis to ensure we have sufficient level of cash to repay all our outstanding bank borrowings in a timely manner and to meet our working capital requirements;

(c) ***Preparation of budgets:*** based on our annual cash flow forecasts, which are prepared by our accounting manager and reviewed and approved by our Board, and the annual procurement plan prepared by our management, our finance department formulates annual budgets, comprising of (i) the overall budgets which includes the profit, total debt and total asset, working capital and cash flow forecasts; (ii) departmental budgets which estimates the costs and expenses for each department; and (iii) special budgets which includes procurement, investment and tax estimates. Budget plans are reviewed and approved by our Board to ensure that we have maintained sufficient levels of cash flow to support our working capital requirements while at the same time procuring raw materials so as to maintain sufficient inventory levels of raw materials for manufacturing;

(d) ***Monitoring compliance with loan covenants:*** in relation to our interest-bearing bank borrowings, our finance department prepares a loan covenants checklist for each of our loan. The loan covenants checklist specifies all the relevant loan covenants for a particular loan and its compliance record throughout the term of the loan. Our finance department reviews and completes such checklist an monthly basis, and report to our Board on quarterly basis our status of compliance with loan covenants on all of our existing loans; and

(e) ***Application for an additional loan:*** to support our working capital requirements and to ensure we can meet our contractual obligations to repay our debts as and when necessary, our finance department may propose applications for an additional loan based on our operational needs.

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Property, plant and equipment mainly comprised of plant and buildings, machinery and equipment and construction in progress.

The carrying amount of property, plant and equipment increased slightly by approximately RMB14.0 million from RMB1,131.1 million as at 31 December 2016 to RMB1,145.1 million as at 31 December 2017, mainly due to addition of construction in progress of approximately RMB76.5 million net off by depreciation of approximately RMB66.3 million. The addition of construction in progress in FY2017 represented Phase One Expansion at our Bohai New District Factory.

The carrying amount of property, plant and equipment increased by approximately RMB416.0 million from RMB1,145.1 million as at 31 December 2017 to RMB1,561.1 million as at 31 December 2018, mainly due to (i) addition of construction in progress of approximately RMB416.1 million; (ii) addition of plants and buildings of approximately RMB23.5 million; (iii) addition of machinery and equipment of approximately RMB8.6 million; and (iv) net off by the depreciation of approximately RMB67.7 million. The addition of construction in progress, plant and buildings and machinery and equipment in FY2018 represented Phase One Expansion at our Bohai New District Factory.

The carrying amount of property, plant and equipment increased by approximately RMB229.9 million from RMB1,561.1 million as at 31 December 2018 to RMB1,791.0 million as at 30 June 2019, mainly due to (i) addition of construction in progress of approximately RMB263.3 million; and (ii) net off by the depreciation of approximately RMB39.1 million. The addition of construction in progress in 6M2019 represented Phase One Expansion at our Bohai New District Factory.

Inventories

Our inventories mainly comprised raw materials and key components, work in progress and finished goods. The following table sets out the balance of our inventories as at the respective dates indicated:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	66,616	127,017	94,699	114,215
Work in progress	101,515	116,364	149,104	137,071
Finished goods	96,512	132,742	176,961	134,698
	264,643	376,123	420,764	385,984
Less: Write-down of inventories	(4,634)	(1,160)	(1,094)	(928)
	260,009	374,963	419,670	385,056

The inventory balance increased substantially from approximately RMB260.0 million as at 31 December 2016 to approximately RMB375.0 million as at 31 December 2017 and subsequently increased to approximately RMB419.7 million as at the year ended 31 December 2018. The increase in the inventories as at 31 December 2017 and as at 31 December 2018 was mainly due to the increase in price of raw materials and increase in our production along with increase in sales. The inventory balance decreased to approximately RMB385.1 million as at 30 June 2019 mainly due to decrease in work in progress and finished goods of pipe billets as the ancillary production facilities for pipe billets underwent certain transformation in early June 2019 which led to the decrease in output of pipe billets.

Our management reviews the inventory ageing analysis at the end of each reporting period. We evaluated the analyses and assessments with respect to slow moving and obsolete stock. At the end of each reporting period, inventories are measured at the lower of cost and net realisable value. When the net realisable value is lower than the cost, we make write-down of inventories. The write-down of inventories are based on the difference between the cost of the inventory and its net realisable value. If after write-down of inventories, there are factors influencing the inventory value of those previously being write-down, resulting in the net realisable value being higher than its book value, the write-down of inventories will be reversed.

The table below sets out our average inventory turnover days for the relevant date indicated.

	At 31 December			At 30 June
	2016	2017	2018	2019
	days	*days*	*days*	*days*
Average inventory turnover days *(Note)*	134	64	58	62

Note: Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year/period, divided by the cost of sales for that year/period, multiplied by 365 days for FY2016, FY2017 and FY2018 and by 181 days for 6M2019.

Our average inventory turnover days decreased from 134 days for FY2016 to 64 days for FY2017 and further decreased to 58 days for FY2018. Such decrease was resulted from the increase in sales and full integration of our business model, which had shortened our production cycle. Our average inventory turnover days increased slightly to 62 days as at 30 June 2019.

Set out below is the aging analysis of our inventories as at the respective dates as indicated:

	At 31 December						At 30 June	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Within 3 months	202,656	77.9	290,123	77.4	334,550	79.7	290,658	75.5
3 months to 6 months	15,100	5.8	23,297	6.2	23,232	5.5	31,768	8.3
6 months to 1 year	13,266	5.1	19,590	5.2	22,999	5.5	34,239	8.9
Over 1 year	28,987	11.2	41,953	11.2	38,889	9.3	28,391	7.3
	260,009	100.0	374,963	100.0	419,670	100.0	385,056	100.0

As at 31 December 2016, 2017 and 2018 and 30 June 2019, majority of our inventories balance was aged within three months, which represents approximately 77.9%, 77.4%, 79.7% and 75.5%, respectively, of our inventories balance as at the respective year end. In respect of our inventories aged over one year, a significant portion of such inventories comprises of (i) spare parts, which amounted to approximately RMB14.5 million, RMB19.7 million, RMB20.1 million and RMB12.5 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively, for the use of repair and maintenance for our production machineries which would only be used internally from time to time when necessary to ensure proper functioning of our machineries; and (ii) mould, which amounted to approximately RMB5.6 million, RMB6.3 million, RMB5.8 million and RMB6.0 million for each of FY2016, FY2017, FY2018 and 6M2019, respectively. Approximately 69.4%, 61.9%, 66.6% and 65.1% of our inventories aged over one year for each of FY2016, FY2017, FY2018 and 6M2019, respectively, comprise of the above mentioned spare parts and mould which are mainly for internal use and are neither for sale nor as direct materials of our products. Excluding the above-mentioned spare parts and mould, inventories aged over one year that was directly attributable to production and sale only accounted for an insignificant portion of less than 5% of our total inventory balance for each of FY2016, FY2017, FY2018 and 6M2019, respectively. The aging of our inventories balance remained stable throughout the Track Record Period.

As at 31 August 2019, approximately RMB266.6 million (or approximately 69.2%) of our inventories as at 30 June 2019 had been utilised.

Trade and bills receivables

Our balance of trade and bills receivables represented bank and trade acceptance notes received from customers with maturity dates of less than six months. The table below sets out the breakdown of our trade and bills receivables as at the respective dates indicated:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	113,664	252,404	243,609	471,148
Less: allowance for doubtful debts	(3,197)	(3,123)	(3,511)	(5,900)
	110,467	249,281	240,098	465,248
Bills receivable	132,426	309,300	393,547	376,950
Total	242,893	558,581	633,645	842,198

We performed ongoing estimates on the collectability of our trade receivables during the Track Record Period. We recorded allowance for doubtful debts of approximately RMB3.2 million, RMB3.1 million, RMB3.5 million and RMB5.9 million as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Set out below is the movement in relation to our impairment of trade receivables as at respective reporting dates as indicated below:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
At 1 January	1,326	3,197	3,123	3,123	3,511
Credit losses recognised/ (reversal of credit losses)	1,871	(74)	388	596	2,389
At 31 December/30 June	3,197	3,123	3,511	3,719	5,900

We recorded trade and bills receivables from sales to our customers during the Track Record Period. Our trade and bills receivables increased from approximately RMB242.9 million as at 31 December 2016 to approximately RMB558.6 million as at 31 December 2017 and further increased to approximately RMB633.6 million as at 31 December 2018. Our trade and bills receivables further increased to approximately RMB842.2 million as at 30 June 2019. The increase in trade and bills receivables as at 31 December 2017 and 2018 was primarily due to the increase in our product price and sales volume during FY2017 and FY2018. The increase in trade and bills receivables as at 30

June 2019 was primarily due to the increase in revenue contribution from sales of OCTG. Except for one of the pipe billets customer which we grant a credit terms of approximately 20 days, we normally require advance payment from pipe billets customers. For oil companies (i.e. mainly OCTG customers who are members of one of the PRC Big-3 NOC), we generally grant a credit terms of up to 90 days. For 6M2019, (i) our sales of OCTG accounted for approximately 60.7% of our total revenue, whereby sales of OCTG for FY2018 and 6M2018 only accounted for approximately 55.2% and 52.1% of our total revenue, respectively; and (ii) the proportion of sales of pipe billet has decreased. Such changes, together with the increase in sales of OCTG for 6M2019, had led to the increase in trade receivable balance as at 30 June 2019 and the average trade receivable turnover days.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, we have discounted certain of the bank acceptance notes we received at banks, and endorsed certain of the bank acceptance notes we received to our suppliers and other creditors for settlement of our trade and other payables on a full recourse basis. Upon the discounting or endorsement, we have derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from each of the end of the reporting period. Our Directors are of the opinion that we have transferred substantially all the risks and rewards of ownership of these notes and have discharged our obligation of the payables to our suppliers and other creditors. We consider the issuing banks of these notes are of good credit quality and non-settlement of these notes by the issuing banks on maturity is highly unlikely. As at 31 December 2016, 2017 and 2018 and 30 June 2019, our maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to approximately RMB40.4 million, RMB176.9 million, RMB118.0 million and RMB93.1 million, respectively. As such, we are subject to credit risk in respect of our bills receivables. Please refer to the section headed "Risk Factors — Risk Relating to our Business and Industry — We are subject to credit risk in respect of our bills receivables" in this prospectus for further details.The following table sets forth the aging analysis of trade receivables, based on invoice date and net of allowance for doubtful debts, as at the reporting dates as indicated below:

	At 31 December			**At 30 June**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 month	61,868	218,722	134,864	270,380
1 to 3 months	23,245	21,401	97,836	144,202
3 to 6 months	21,825	6,107	5,323	44,397
Over 6 months	3,529	3,051	2,075	6,269
	110,467	249,281	240,098	465,248

The following table sets forth the aging analysis of the trade receivables that are not individually nor collectively considered to be impaired, as at the reporting dates as indicated below:

	At 31 December						At 30 June	
	2016		2017		2018		2019	
	Gross carrying amount	Loss allowances	Gross carrying amount	Loss allowances	Gross carrying amount	Loss allowances	Gross carrying amount	Loss allowances
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current (not past due)	73,483	(73)	240,047	(1,464)	207,607	(1,232)	376,382	(836)
Less than 3 months past due	22,078	(442)	4,476	(90)	32,293	(645)	91,533	(1,831)
3 to 6 months past due	12,260	(368)	3,362	(101)	—	—	—	—
6 to 12 months past due	701	(49)	1,411	(99)	—	—	—	—
Over 12 months past due	5,142	(2,265)	3,108	(1,369)	3,709	(1,634)	3,233	(3,233)
	113,664	(3,197)	252,404	(3,123)	243,609	(3,511)	471,148	(5,900)

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there were no recent history of default.

Trade receivables that were past due but not impaired accounted for approximately 35.4%, 4.9%, 14.8% and 20.1% of our total trade receivables as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Such past due but not impaired trade receivables mainly relate to a number of customers that have good track record with our Group. Based on past experience, the Directors consider that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

The table below sets out our average trade receivable and average trade and bills receivable turnover days, as at the reporting dates as indicated below:

	At 31 December			At 30 June
	2016	2017	2018	2019
	days	*days*	*days*	*days*
Average trade receivable turnover days *(Note 1)*	48	29	29	44
Average trade and bills receivable turnover days *(Note 2)*	97	64	70	92

Notes:

1. Average trade receivable turnover days is calculated as the average of the beginning and ending trade receivable balances for the year/period, divided by revenue for that year/period, multiplied by 365 days for FY2016, FY2017 and FY2018 and by 181 days for 6M2019.

2. Average trade and bills receivable turnover days is calculated as the average of the beginning and ending trade and bills receivable balances for the year/period, divided by revenue for that year/period, multiplied by 365 days for FY2016, FY2017 and FY2018 and by 181 days for 6M2019.

We generally grant a credit period of within 90 days from the date of invoice to our customers during the Track Record Period. Our average trade receivable turnover days for FY2016, FY2017, FY2018 and 6M2019 were approximately 48 days, 29 days, 29 days and 44 days, respectively, and are within the general credit period granted. The average trade receivable turnover days decreased from FY2016 to FY2018 due to our adoption of more stringent collection policies. Our average trade receivable turnover days increased to 44 days for 6M2019 mainly due to the increase in proportion of sales of OCTG, to which we provide longer credit period.

Our average trade and bills receivable turnover days for FY2016, FY2017, FY2018 and 6M2019 were approximately 97 days, 64 days, 70 days and 92 days, respectively. The average trade and bills receivable turnover days were higher than the average trade receivable turnover days during the Track Record Period as the bills we received from customers were normally within a maturity date ranging from three months to six month. The fluctuation of average trade and bills receivable turnover days during the Track Record Period was mainly affected by the trade receivable balance and the reasons were discussed above.

During the Track Record Period, we had not experienced any material bad debt problems and material difficulties in collecting payments from our five largest customers. As at 31 August 2019, approximately RMB278.9 million (or approximately 60.0%) of the net trade receivables as at 30 June 2019 was subsequently settled.

Prepayments, deposits and other receivables

Set out below is the breakdown of our prepayments, deposits and other receivables as at the reporting dates as indicated below:

	At 31 December			**At 30 June**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for purchase of raw materials	11,185	31,419	31,064	26,112
Prepayments for transportation and other miscellaneous expenses	10,775	14,582	8,122	11,267
Prepayments for costs incurred in connection with the listing of the Company's shares	—	—	2,158	5,038
VAT recoverable	39,722	10,429	65,043	28,633
Others	2,520	6,912	4,231	5,617
	64,202	63,342	110,618	76,667
Less: allowance for doubtful debts	(375)	(329)	(269)	(239)
	63,827	63,013	110,349	76,428

Our prepayments for purchase of raw materials increased by approximately 180.9% from RMB11.2 million as at 31 December 2016 to RMB31.4 million as at 31 December 2017 as a result of increase in sales orders for OCTG and other oil pipes and thereby we increased our prepayments for purchase of raw materials to secure a more favourable price. Our VAT recoverable decreased by approximately 73.7% from RMB39.7 million as at 31 December 2016 to RMB10.4 million as at 31 December 2017, and increased by approximately 523.7% to approximately RMB65.0 million as at 31 December 2018. Such increase was due to the increase in non-current asset attributable from Phase One Expansion at our Bohai New District Factory. Our VAT recoverable decreased by approximately 56.0% to approximately RMB28.6 million as at 30 June 2019 due to the utilisation of VAT recoverable for 6M2019. Our prepayments for transportation and other miscellaneous expenses increased by approximately 38.7% from approximately RMB8.1 million as at 31 December 2018 to approximately RMB11.3 million as at 30 June 2019 as we normally prepay certain expenses on an annual basis at the beginning of the year and as at 30 June 2019, certain prepayments have not been fully amortised. Our prepayments for costs incurred in connection with the Listing of the Shares increased by approximately 127.3% from approximately RMB2.2 million as at 31 December 2018 to approximately RMB5.0 million as at 30 June 2019 as a result of the professional fees incurred for the preparation of the Listing.

As at 31 August 2019, approximately RMB39.8 million (or approximately 52.0%) of the prepayments, deposits and other receivables as at 30 June 2019 was subsequently utilised.

Cash at bank and on hand

The following table sets forth the breakdown of our cash at bank and on hand as at the reporting dates as indicated below:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	119,503	395,137	391,168	482,770
Cash on hand	75	130	39	92
Cash at bank and on hand included in the consolidated statements of financial position	119,578	395,267	391,207	482,862
Less: restricted deposits	(98,972)	(233,178)	(260,589)	(137,712)
Cash and cash equivalents included in the consolidated cash flow statements	20,606	162,089	130,618	345,150

Our cash at bank and on hand, increased from approximately RMB119.6 million as at 31 December 2016 to approximately RMB395.3 million as at 31 December 2017. Our cash at bank and on hand decreased slightly to approximately RMB391.2 million as at 31 December 2018 and increased to approximately RMB482.9 million as at 30 June 2019.

Trade and bills payables

In general, our suppliers grant us a credit period of within 30 days from the date of invoice. The following table sets forth the aging analysis of our trade payables and bill payable based on the invoice date as at the reporting dates as indicated below:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 month	19,676	156,711	153,074	274,576
1 to 3 months	59,347	51,810	111,070	7,171
3 to 6 months	197,403	99,176	69,476	35,547
Over 6 months	21,827	98,935	62,178	9,376
	298,253	406,632	395,798	326,670

Our trade and bills payables increased by approximately 36.3% from approximately RMB298.3 million as at 31 December 2016 to RMB406.6 million as at 31 December 2017 as a result of the increase in price of raw materials and increased sales volume.

The table below sets out our average trade payable turnover days as at the reporting dates as indicated below:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	days	*days*	*days*	*days*
Average trade payable turnover days *(Note)*	43	25	35	46

Note: Average trade payable turnover days is calculated as the average of the beginning and ending trade payable balances for the year/period, divided by the cost of sales for that year, multiplied by 365 days for FY2016, FY2017 and FY2018 and by 181 days for 6M2019.

The decrease in average trade payable turnover days for FY2017 was mainly because we voluntarily accelerated the settlement of our bills to maintain competitive in procurement. The increase in average trade payable turnover days for FY2018 was principally due to the increase in trade payable balance as at 31 December 2018, which was generally in line with the credit period granted. The average trade payable turnover days further increased to 46 days as at 30 June 2019 as we adopted more stringent payment policies.

As at 31 August 2019, approximately RMB229.1 million (or approximately 70.1%) of the trade payables as at 30 June 2019 was subsequently settled.

Other payables and accruals

The following table sets forth a breakdown of our other payables and accruals as at the reporting dates as indicated below:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables for other taxes	3,755	16,495	14,579	4,027
Payables for staff related costs	895	767	4,671	1,874
Interest payable	1,988	4,312	8,215	5,457
Payables for transportation and utilities expenses	7,238	13,502	11,519	10,731
Payables for costs incurred in connection with the listing of the Company's shares	—	—	1,908	4,682
Distributions payable	—	—	231,761	231,761
Other payables	8,924	1,783	1,290	2,620
Financial liabilities measured at amortised cost	22,800	36,859	273,943	261,152
Receipts in advance	65,479	103,002	29,296	15,581
	88,279	139,861	303,239	276,733

Other payables and accruals increased from approximately RMB88.3 million as at 31 December 2016 to approximately RMB139.9 million as at 31 December 2017, which was generally in line with our growth of business. Other payables and accruals further increased to approximately RMB303.2 million as at 31 December 2018, which was mainly due to increased distributions payable. Other payables and accruals decreased to approximately RMB276.7 million as at 30 June 2019, which was mainly due to (i) decrease in payables for other taxes as VAT decreased; and (ii) decrease in receipts in advance as the sales volume of pipe billets decreased.

As at 31 August 2019, approximately RMB34.5 million (or approximately 12.5%) of the other payables and accruals as at 30 June 2019 was subsequently settled.

INDEBTEDNESS AND CONTINGENT LIABILITIES

The following table sets forth our total indebtedness as at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 August 2019, respectively:

	At 31 December			At 30 June	As at 31 August
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)
Current					
Short-term bank loans — secured	335,767	634,810	887,990	971,733	1,022,073
Short-term bank loans — unsecured	2,000	4,000	3,500	81,200	81,200
Add: current portion of long term bank loans	155,000	102,000	453,520	269,520	228,020
Loan from a related parties	13,500	831	—	—	—
Lease liabilities	—	—	—	895	903
Sub-total	506,267	741,641	1,345,010	1,323,348	1,332,196
Non-current					
Long-term bank loans — secured	316,000	366,000	310,000	704,500	712,400
Long-term bank loans — unsecured	—	—	—	27,000	27,000
Lease liabilities	—	—	—	623	469
Total	822,267	1,107,641	1,655,010	2,055,471	2,072,065

Interest-bearing bank borrowings

We had interest-bearing bank borrowings with a carrying value of approximately RMB808.8 million, RMB1,106.8 million, RMB1,655.0 million, RMB2,054.0 million and RMB2,070.7 million, respectively as at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 August 2019, respectively. Certain of these interest-bearing bank borrowings were secured by assets of our Group, guaranteed by Dalipal Group, Mr. Meng and his spouse and/or secured by the property and the entity interests in Dalipal Group of Mr. Meng or guarantee provided by a supplier (as the case may be). At 31 December 2016, 2017 and 2018 and 30 June 2019, the aggregate carrying amount of property, plant and equipment pledged for our interest-bearing bank borrowings were approximately RMB560.7 million, RMB521.6 million, RMB407.6 million and RMB1,156.7 million, respectively. All of the securities and guarantees provided by these related parties have been released as at the Latest Practicable Date.

Bank loans with a carrying value of approximately RMB517.8 million, RMB817.8 million, RMB1,367.0 million and RMB1,702.0 as at 31 December 2016, 2017 and 2018 and 30 June 2019 were with fixed interest rate and the effective interest rates in respect of such bank loans ranged from 4.14%–6.55%, 4.35%–6.55%, 4.18%–6.55% and 3.31%–6.55%, respectively.

Bank loans with a carrying value of approximately RMB291.0 million, RMB289.0 million, RMB288.0 million and RMB352.0 million as at 31 December 2016, 2017 and 2018 and 30 June 2019 were with variable interest rate and the effective interest rates in respect of such bank loans ranged from 4.28%–6.04%, 4.28%–4.99%, 4.28%–5.66% and 4.28%–6.04%, respectively.

Loan agreements in respect of our interest-bearing bank borrowings from banks during the Track Record Period contained standard covenants that restricted us on, among others, the use of borrowed funds and we are required to notify and/or obtain prior written consent from the banks upon, among others, occurrence of merger, consolidation, acquisition, split-up, share transfer, material increase in bank borrowings, investment in a joint venture, change of business scope, sale or dispose of material assets, corporate reorganisation, significant external investments, undertaking of additional debt financing, material litigation or winding-up or bankruptcy or change in registered capital. If we are in breach with any of these covenants, the interest-bearing bank borrowings would become repayable on demand. During the Track Record Period and up to the Latest Practicable Date, we had not breached any material covenant under the loan agreements, nor defaulted on any loan payment.

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our banking facilities amounted to approximately RMB807.4 million, RMB1,103.2 million, RMB1,751.9 million and 2,054.5 million, of which approximately RMB806.8 million, RMB1,102.8 million, RMB1,651.5 million and 2,054.0 million was utilised, respectively.

As at 31 August 2019, being the latest practicable date for the purpose of the indebtedness statement, we had interest-bearing bank borrowings of approximately RMB2,070.7 million and banking facilities of approximately RMB2,071.2 million, of which approximately RMB0.5 million was unutilised.

Loan from a related party

We had loan from a related party, Dalipal Group, with a carrying value of approximately RMB13.5 million, RMB0.8 million, nil, nil and nil, respectively as at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 August 2019. Loans from a related party were with variable interest rate and the effective interest rates in respect of such loans were 5.44%, 5.44%, nil, nil and nil, respectively.

Contingent liability

As at 31 August 2019, being the latest practicable date for the purpose of the indebtedness statement, we did not have any contingent liabilities or guarantees.

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, debentures, mortgages, charges, finance lease or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

COMMITMENTS

Capital commitments

As at 31 December 2016, 2017 and 2018 and 30 June 2019, our capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments in respect of property, plant and equipment:				
Contracted for	3,145	703,295	356,392	240,345

The capital commitment principally related to the cost incurred for the construction of the Phase One Expansion during the Track Record Period.

CAPITAL EXPENDITURE

Throughout the Track Record Period, we had made capital expenditures, typically in connection with plant and buildings, machinery and equipment, motor vehicles, the construction in progress and land use rights. These capital expenditures amounted to approximately RMB39.3 million, RMB80.3 million and RMB483.7 million and RMB269.1 million for FY2016, FY2017, FY2018 and 6M2019, respectively.

Expected capital expenditure

The table below sets forth a summary of our expected capital expenditure for each of the five years ending 31 December 2023. Such expected capital expenditure is estimated by our Directors based on information currently available to our Directors and is subject to change. In addition, our Directors will monitor the progress of our expansion plans to which these capital expenditure relates from time to time and may adjust the plan and the corresponding capital expenditure as and when appropriate.

	For the year ending 31 December 2019 (A)	Payment schedule in 2019	Source of funding	For the year ending 31 December 2020 (B)	Payment schedule in 2020	Source of funding	For the year ending 31 December 2021 (C)	Payment schedule in 2021	Source of funding	For the year ending 31 December 2022 (D)	Payment schedule in 2022	Source of funding	For the year ending 31 December 2023 (E)	Payment schedule in 2023	Source of funding	Total (A + B + C +D + E)
	(RMB' million)	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*
(a) Phase One Expansion at Bohai New District Factory																
(i) construction of the factory for OCTG and other oil pipes production lines	30.0	First half of 2019: 16.0 Second half of 2019: 14.0	Internal resources and/ or external financing	–	–	–	–	–	–	–	–	–	–	–	–	30.0
(ii) acquisition of more advanced and automated machineries, equipment and/or system for the manufacture of OCTG and other oil pipes	291.8	First half of 2019: 188.0 Second half of 2019: 103.8	Internal resources and/ or external financing	–	–	–	–	–	–	–	–	–	–	–	–	291.8
(iii) construction of other ancillary facilities, such as our test centre	13.1	First half of 2019: 7.0 Second half of 2019: 6.1	Internal resources and/ or external financing	–	–	–	–	–	–	–	–	–	–	–	–	13.1
Total for Phase One Expansion at Bohai New District Factory	**334.9**			–			–			–			–			**334.9**

	For the year ending 31 December 2019 (A)	Payment schedule in 2019	Source of funding	For the year ending 31 December 2020 (B)	Payment schedule in 2020	Source of funding	For the year ending 31 December 2021 (C)	Payment schedule in 2021	Source of funding	For the year ending 31 December 2022 (D)	Payment schedule in 2022	Source of funding	For the year ending 31 December 2023 (E)	Payment schedule in 2023	Source of funding	Total (A + B + C +D + E)
	(RMB' million)	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*
(b) Phase Two Expansion at Bohai New District Factory																
(i) construction of the factory for OCTG and other oil pipes production lines	—	—	—	17.5	First half of 2020: 8.0 Second half of 2020: 9.5	Net proceeds from Global Offering	122.8	First half of 2021: 39.0 Second half of 2021: 83.8	— Approximately RMB35.1 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	26.3	First half of 2022: 19.3 Second half of 2022: 7.0	Internal resources and/ or external financing	8.9	First half of 2023	Internal resources and/ or external financing	**175.5**
(ii) acquisition of more advanced and automated machineries, equipment and/or system for the manufacture of OCTG and other oil pipes	—	—	—	106.2	First half of 2020: 48.0 Second half of 2020: 58.2	— Approximately RMB104.8 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	347.4	First half of 2021: 111.0 Second half of 2021: 236.4	— Approximately RMB98.4 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	158.7	First half of 2022: 118.5 Second half of 2022: 40.2	Internal resources and/ or external financing	60.2	First half of 2023: 30.0 Second half of 2023: 30.2	Internal resources and/ or external financing	**672.5**
(iii) transformation of pipe billets production line into an intelligent automated production line with advanced technologies	—	—	—	47.7	First half of 2020: 22.0 Second half of 2020: 25.7	— Approximately RMB28.0 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	42.8	First half of 2021: 14.0 Second half of 2021: 28.8	Internal resources and/ or external financing	4.5	First half of 2022: 3.3 Second half of 2022: 1.2	Internal resources and/ or external financing	—	—	—	**95.0**
(iv) acquisition of more advanced and automated machineries, equipment and/or system for the manufacture of pipe billets	—	—	—	78.3	First half of 2020: 35.0 Second half of 2020: 43.3	— Approximately RMB53.0 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	80.9	First half of 2021: 25.8 Second half of 2021: 55.1	Internal resources and/ or external financing	17.8	First half of 2022: 13.0 Second half of 2022: 4.8	Internal resources and/ or external financing	—	—	—	**177.0**
(v) acquisition and installation of intelligent management systems, such as ERP, MES and LIMS, and robots, sensors, servo control and other artificial intelligence technologies, and unmanned intelligent storage system in the production facilities under Phase Two Expansion	3.0	Second half of 2019	— Approximately RMB0.9 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	—	—	—	30.0	First half of 2020: 7.5 Second half of 2020: 22.5	— Approximately RMB29.4 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	60.0	First half of 2021: 45.7 Second half of 2021: 14.3	Internal resources and/ or external financing	10.0	First half of 2023	Internal resources and/ or external financing	**103.0**
Total for Phase Two Expansion at Bohai New District Factory	**3.0**			**249.7**			**623.9**			**267.3**			**79.1**			**1,223.0**

	For the year ending 31 December 2019 (A)	Payment schedule in 2019	Source of funding	For the year ending 31 December 2020 (B)	Payment schedule in 2020	Source of funding	For the year ending 31 December 2021 (C)	Payment schedule in 2021	Source of funding	For the year ending 31 December 2022 (D)	Payment schedule in 2022	Source of funding	For the year ending 31 December 2023 (E)	Payment schedule in 2023	Source of funding	Total (A + B + C +D + E)
	(RMB' million)	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*	*(RMB' million)*		*(RMB' million)*
(c) Others																
(i) Construction of a big data centre for us to share and control our products and logistics information with our customers and/or suppliers	11.0	Second half of 2019	— Approximately RMB5.0 million by net proceeds from Global Offering — Remaining balance by internal resources and/or external financing	6.0	First half of 2020	Internal resources and/or external financing	—	—	—	—	—	—	—	—	—	**17.0**
(ii) R&D and construction of machineries for the recycling of smoke discharged by EAF furnace to extract metal zinc from smoke and further processed in to scrap metals	—	—	—	—	—	—	18.0	First half of 2021: 10.0 Second half of 2021: 8.0	— Approximately RMB5.8 million by net proceeds from Global Offering — Remaining balance by internal resources and external financing	2.0	First half of 2020	Internal resources and/or external financing	—	—	—	**20.0**
(iii) Construction of electrical substation	46.3	Second half of 2019	Internal resources and/or external financing	83.9	First half of 2020: 22.8 Second half of 2020: 61.1	Internal resources and/or external financing	35.2	First half of 2021: 21.4 Second half of 2021: 13.8	Internal resources and/or external financing	25.7	First half of 2022	Internal resources	4.3	Second half of 2023	Internal resources	**195.4**
(iv) General capital expenditure for our existing production lines	24.2	First half of 2019: 10.0 Second half of 2019: 14.2	Internal resources	30.0	First half of 2019	Internal resources	72.0	First half of 2021: 40.0 Second half of 2021: 32.0	Internal resources	18.0	First half of 2022: 10.0 Second half of 2022: 8.0	Internal resources	—	—	—	**144.2**
(v) Construction of information platform	11.0	Second half of 2019	Internal resources and external financing	6.0	First half of 2020	Internal resources and external financing	—	—	—	—	—	—	—	—	—	**17.0**
Total for others	**92.5**			**125.9**			**125.2**			**45.7**			**4.3**			**393.6**

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

PROPERTY INTERESTS AND PROPERTY VALUATION

APAC Asset Valuation and Consulting Limited, an independent property valuer, has valued our property interests as at 31 July 2019. The full text of the letter, summary of valuation and valuation certificates with respect to such property interests are set out in Appendix III to this prospectus.

The table below sets forth the reconciliation between the net book value of the relevant property interests as at 30 June 2019 and the valuation as at 31 July 2019 as set out in Appendix III to this prospectus:

	RMB
Net book value of our property interests as at 30 June 2019	
— Plant and buildings, construction in progress and right-of-use assets	960,161,742
Adjustments for the one month ended 31 July 2019	
— Addition	1,933,960
— Depreciation and amortisation	(2,659,767)
Net book value of our property interests as at 31 July 2019	959,435,935
Net valuation surplus	52,034,065
Valuation of our property interests as at 31 July 2019 as set out in the property valuation report in Appendix III to this prospectus	1,011,470,000

SUMMARY OF FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios for each of the FY2016, FY2017, FY2018 and 6M2019 and should be read in conjunction with the Accountants' Report included as Appendix I to this prospectus:

		As at/For the year ended 31 December			As at/ For the year ended 30 June
	Notes	2016	2017	2018	2019
Current ratio	1	0.8 times	1.1 times	0.8 times	0.9 times
Debt to asset ratio	2	44.1%	43.6%	53.1%	57.4%
Debt to equity ratio	3	107.4%	80.4%	165.7%	175.3%
Interest coverage	4	N/A	5.8 times	5.9 times	5.1 times
Return on total assets	5	N/A	10.5%	10.6%	N/A *(Note 9)*
Return on equity	6	N/A	30.1%	36.5%	N/A *(Note 9)*
Gross profit margin	7	6.2%	19.4%	19.1%	18.5%
Net profit margin	8	N/A	10.2%	9.7%	8.1%

Notes:

1. Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective year/period end.

2. Debt to asset ratios equals to our total debt (total debt being the total interest-bearing bank borrowings and loan from a related party) divided by total asset as at the respective year/period end and multiplied by 100%.

3. Debt to equity ratio is calculated by the net debt (total debts being the total interest-bearing bank borrowings and loan from a related party net of cash at bank and on hand) divided by the total equity as at the respective year/period end and multiplied by 100%.

4. Interest coverage is calculated by the profit before finance costs and income tax divided by the finance costs as at the respective year/period end.

5. Return on total assets is calculated by profit for the year/period divided by the average total assets as at the respective year/period end and multiplied by 100%.

6. Return on equity is calculated by profit for the year/period divided by the average total equity as at the respective year/period end and multiplied by 100%.

7. Gross profit margin equals to our gross profit for the year/period divided by our revenue for the year/period and multiplied by 100%.

8. Net profit margin is calculated by the profit for the year/period divided by revenue for the respective year/period and multiplied by 100%.

9. The semi-annual number is not meaningful as it is not comparable to annual number.

Current ratio

We had a net current liability position as at 31 December 2016, 31 December 2018 and 30 June 2019 and a net current asset position as at 31 December 2017 and recorded current ratio of approximately 0.8 times, 1.1 times, 0.8 times and 0.9 times as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Our current ratio increased slightly from approximately 0.8 times as at 31 December 2016 to 1.1 times as at 31 December 2017. The increase was primarily due to (i) increase in trade and bills receivables from RMB242.9 million as at 31 December 2016 to RMB558.6 million as at 31 December 2017; and (ii) increase in cash at bank and on hand from approximately RMB119.6 million as at 31 December 2016 to RMB395.3 million as at 31 December 2017, which was primarily due to the increase in our operating level and increase in sales. Our current ratio decreased to 0.8 times as at 31 December 2018, was mainly due to (i) increase in short-term interest-bearing bank borrowings from approximately RMB740.8 million as at 31 December 2017 to RMB1,345.0 million as at 31 December 2018; and (ii) increase in other payables and accruals from approximately RMB139.9 million as at 31 December 2017 to RMB303.2 million as at 31 December 2018. Our current ratio increased slightly from approximately 0.8 times as at 31 December 2018 to 0.9 times as at 30 June 2019. The increase was primarily due to (i) we have generated net operating cash inflow of approximately RMB74.0 million; and (ii) we were able to obtain new long-term bank loans or restructure short-term and long-term loan composition to finance our operation.

Debt to asset ratio

Our debt to asset ratio was approximately 44.1%, 43.6%, 53.1% and 57.4% as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Debt to asset ratio slightly decreased from approximately 44.1% as at 31 December 2016 to 43.6% as at 31 December 2017. Our debt to asset ratio increased to 53.1% as at 31 December 2018 was primarily due to decrease in total equity as a result of distributions paid of RMB453.0 million for FY2018 while our total debt increased. Our debt to asset ratio slightly increased to 57.4% as at 30 June 2019 due to the increase in long-term interest-bearing bank borrowing.

Debt to equity ratio

Our debt to equity ratio was approximately 107.4%, 80.4%, 165.7% and 175.3% as at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively. Debt to equity ratio decreased from approximately 107.4% as at 31 December 2016 to 80.4% as at 31 December 2017 primarily due to our increasing level of cash at bank and on hand as a result of increase in sales and total equity as at 31 December 2017. Our debt to equity ratio increased to 165.7% as at 31 December 2018 primarily due to decreasing level of total equity as a result of distributions as at 31 December 2018. Our debt to equity ratio further increased to 175.3% as at 30 June 2019 primarily due to increasing level of long-term interest-bearing bank borrowings as at 30 June 2019.

Interest coverage

Our interest coverage ratio was not applicable for FY2016 as we recorded loss for the year during FY2016. Our interest coverage ratio remained stable at 5.8 times and 5.9 times for FY2017 and FY2018, respectively. Our interest coverage ratio decreased from 5.9 times for FY2018 to 5.1 times for 6M2019 primarily due to the decrease in net profit as discussed before.

Return on total assets

Our return on total assets was not applicable for FY2016 as we recorded loss for the year during FY2016. Our return on total assets remained stable at 10.5% and 10.6% for FY2017 and FY2018, respectively.

Return on equity

Our return on equity was not applicable for FY2016 as we recorded loss for the year during FY2016. Our return on equity increased from 30.1% for FY2017 to 36.5% for FY2018 primarily due to the increase in our profit and total comprehensive income for the year as a result of the reasons discussed in the paragraph headed "Review of Historical Operating Results — Period to period comparison of results of operations" in this section.

Gross profit margin

Our gross profit margin increased from approximately 6.2% for FY2016 to approximately 19.4% for FY2017 and remained stable at approximately 19.1% for FY2018. Our gross profit margin decreased from approximately 21.5% for 6M2018 to approximately 18.5% for 6M2019. Please refer to the paragraph headed "Review of Historical Operating Results — Period to period comparison of results of operations" in this section for the reasons in the changes of gross profit margin.

Net profit margin

Our net profit margin was not applicable for FY2016 as we recorded loss for the year during FY2016. Our net profit margin decreased from approximately 10.2% for FY2017 to approximately 9.7% for FY2018. Our net profit margin decreased from approximately 11.9% for 6M2018 to approximately 8.1% for 6M2019. Please refer to the paragraph headed "Review of Historical Operating Results — Period to period comparison of results of operations" in this section for the reasons of the decrease in net profit margin for FY2018 and 6M2019.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

During our normal course of business, we are exposed to various financial risks, including credit risk, liquidity risk, interest rate risk and foreign currency risk. For details, please refer to Note 24 to the Accountants' Report set out in Appendix I of this prospectus.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, including the loan from and the loan granted to Dalipal Group, and related interest expenses and income, and pledge of assets and guarantees provided by Dalipal Group, Mr. Meng and his spouse. For a discussion of the related party transactions, please refer to Note 26 to the Accountants' Report in Appendix I. As of the Latest Practicable Date, all the loan from, and the loan granted to, Dalipal Group have been fully repaid. All of the securities and guarantees provided by these related parties have been released as at the Latest Practicable Date.

During the Track Record Period, the lending and borrowing, as well as the loan agreements between us and Dalipal Group were made for the purpose of funding their respective general working capital, and have been fully repaid. The interest income generated from the loans granted to Dalipal Group was approximately RMB3.8 million for FY2018. There was no loan granted to Dalipal Group for FY2016 and FY2017, while we were granted loan by Dalipal Group with carrying value of approximately RMB13.5 million, RMB0.8 million, nil, nil and nil as at 31 December 2016, 2017 and 2018, 30 June 2019 and 31 August 2019, respectively.

According to the General Lending Provisions (貸款通則) promulgated by People's Bank of China (the "**PBOC**") on 28 June 1996 with effect on 1 August 1996, lending and borrowing, including those in covert form, between enterprises shall not violate the relevant national rules and regulations. The PBOC may impose penalties on the lender equivalent to one to five times of the income generated (being interests charged) from loan advancing activities.

However, according to the Provisions of the Supreme People's Court on Several Issues concerning the Application of Law in the Trial of Private Lending cases (《最高人民法院關於審理民間借貸案件適用若干問題的規定》) ("**Provisions**"), the validity of a private lending agreement entered into for the purpose of production or business operation between legal persons and other organisations shall be supported by the court, and the legal rights of both parties shall be protected under the PRC laws. Pursuant to Supreme People's Court's Reply to Reporters' Questions in relation to the Provisions (最高人民法院負責人就《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》答記者問), the General Lending Provisions are department rules rather than compulsory laws or administrative regulations. The Property Rights Law of the PRC (中華人民共和國物權法) ("**Property Rights Law**") and the Contract Law of the PRC (中華人民共和國合同法) ("**Contract Law**") pre-empt the General Lending Provisions. A contract can only be invalidated by laws or administrative regulations in accordance with Article 52 of Contract Law. The Property Rights Law with effect on 1 October 2007 states that property right holders have the right to freely dispose their properties, including monetary funds, in accordance with the law. If a corporate property right holders has no right to dispose the monetary properties under the General Lending Provisions, such provisions should be in conflict with the Property Rights Law.

According to the analysis mentioned above, our PRC Legal Advisers are of the view that (i) the lending and borrowing, as well as the loan agreements between us and Dalipal Group are legal and valid and do not violate the compulsory provisions in any law or administrative regulation in the PRC, thus the lending and borrowing does not constitute non-compliance under the PRC law; and (ii) the risk that PBOC will impose any penalty because of the lending and borrowing, as well as the loan agreements between us and Dalipal Group is low.

Our Directors are of the view that the related party transactions were conducted at arm's length and on normal commercial terms or better, and would not distort our results of operations over the Track Record Period or make our historical results over the Track Record Period not reflective of our expectations for our future performance.

LISTING EXPENSES

Assuming that the Over-allotment Option is not exercised, the listing expenses in connection with the Listing, which include professional fees, underwriting commission and fees, assuming an Offer Price of HK$1.71 per Share, being the mid-point of the proposed Offer Price range, are estimated to be RMB45.7 million. During the Track Record Period, we incurred listing expenses of approximately RMB23.7 million, of which approximately RMB7.6 million and RMB11.1 million was recognised in the consolidated statement of profit and loss and other comprehensive income for FY2018 and 6M2019, respectively, and approximately RMB5.0 million was recognised as prepayments in the consolidated statement of financial position as at 30 June 2019, which will be accounted for as a deduction from equity upon Listing. Subsequent to the Track Record Period, we expect to further incur listing expenses of RMB22.0 million prior to and upon completion of the Listing, of which (i) RMB8.8 million is expected to be recognised as expenses in our consolidated statement of profit and loss and other comprehensive income for the year ending 31 December 2019; and (ii) RMB13.2 million is expected to be accounted for as a deduction from equity upon Listing under the relevant accounting standard.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be affected by the listing expenses mentioned above.

DISTRIBUTABLE RESERVES

Our Company had no distributable reserve available for distribution to Shareholders as at 30 June 2019.

DIVIDENDS AND DIVIDEND POLICY

For each of FY2016, FY2017, FY2018 and 6M2019, we declared dividend of nil, nil, approximately RMB453.0 million and nil. Approximately RMB221.2 million of the dividend declared in FY2018 had been settled during such year. The remaining dividend of approximately RMB231.8 million declared in FY2018 is expected to be paid in full prior to Listing.

Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Company considers stable and sustainable returns to our Shareholders to be our goal. We currently target to distribute to our Shareholders dividends not less than 40% of our Group's net profit (excluding net profit attributable to government compensation, allowance, incentive and/or subsidy in relation to the land and building resumption and/or relocation of our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse) for the year attributable to equity shareholders of our Company in each financial year, commencing from the financial year ending 31 December 2019. In deciding whether to propose a dividend and in determining the dividend amount, our Directors will take into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to (i) our Articles, which provide that dividends may be declared by us at a general meeting, but no dividend shall be declared in excess of the amount recommended by the Board, and (ii) the applicable laws of the Cayman Islands, which provide that dividends may be paid out of the profits of a company or out of sums standing to the credit of its share premium account and that no dividend may be paid out of the share premium account unless, immediately following the date on which the dividend is paid, our Company is able to pay its debts as they fall due in the ordinary course of business. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors. The dividend policy of our Company will continue to be reviewed by our Board from time to time and there can be no assurance that dividends will be paid in any particular amount for any given period.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the section headed "Appendix II — Unaudited Pro Forma Financial Information" for details.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business model has remained unchanged since 30 June 2019. Based on the unaudited financial information currently available to us, our revenue and cost structure has remained stable since 30 June 2019. During the two months ended 31 August 2019, the quantities of OCTG and other oil pipes manufactured and sold by us had increased as compared to the corresponding period in FY2018, while the quantities of pipe billets which we had sold decreased as compared to the corresponding period in FY2018. Less pipe billets were sold by us was mainly because there was an increased amount of pipe billets that was utilised internally to satisfy the increased demands for our OCTG and other oil pipes from our customers.

The construction of our production facilities, which includes a new OCTG production line and a new other oil pipes production line with annual production capacity of 100,000 tonnes and 300,000 tonnes, respectively, in our Bohai New District Factory for our Phase One Expansion was completed in August 2019. The commercial production of our OCTG production line constructed under Phase One Expansion commenced in early September 2019. In light of the smooth operation of the new OCTG production line constructed in our Bohai New District Factory under Phase One Expansion during the trial run since April 2019 and to avoid any interruption to our production, we have gradually relocated and consolidated our existing OCTG production line from our Xinhua District Factory to the new OCTG production line at our Bohai New District Factory since the end of June 2019. The relocation was completed in September 2019 and had no material impact on our production, sales and ability to satisfy the demands from our customers.

Further, the commercial production of our other oil pipes production line constructed under Phase One Expansion with annual production capacity of 300,000 tonnes commenced in September 2019.

Despite the decrease in gross profit, gross profit margin and profit and total comprehensive income for 6M2019 as compared to 6M2018, the Company expects growth in its profitability, including the gross profit, gross profit margin and net profit, in the future, having taken into account the following factors:

(i) the continuous growth of the oilfield services and equipment industry and the demand for OCTG in the PRC. In particular, according to CIC Report, the market size of the oilfield services and equipment industry in the PRC, as measured by the exploration and development capital expenditures of the PRC Big-3 NOC, is estimated to increase from approximately RMB300.4 billion in 2018 to approximately RMB393.1 billion in 2023, at a CAGR of approximately 5.5%. Furthermore, demand for OCTG in the PRC in terms of sales value is estimated to increase from approximately RMB23.2 billion in 2018 to approximately RMB30.5 billion in 2023, at a CAGR of approximately 5.6%;

(ii) we believe we will be able to transfer any significant increase in raw material cost through the increase in selling price of our OCTG and other oil pipes under the current pricing mechanism. Pursuant to the pricing policy between us and one of the PRC Big-3 NOC, with details set out in the section headed "Business — Customers — Pricing policy", the selling price of our OCTG and other oil pipes to such PRC Big-3 NOC shall be determined during the first quarter of each year with reference to, amongst others, the costs of raw materials and the market conditions. Such agreed price list is generally valid for a period of one year and no adjustment will be made to the price list if the fluctuation in the cost of raw material is considered to be temporary or immaterial. Any temporary fluctuation in the purchase cost of raw material, whether positive or negative, may have an impact on our gross profit and gross profit margin in the short-term.

The historical price fluctuation of plain-end pipes and OCTG was generally in line with that of scrap material with details set out in the section headed "Industry Overview". According to the CIC Report, in order to maintain supply chain stability, the PRC Big-3 NOC will ensure their upstream suppliers can maintain a reasonable margin. They will review their suppliers' raw material cost periodically and adjust their purchasing price of oilfield services and equipment when necessary. Therefore, if there are any material fluctuations or prolonged increase or decrease in the raw material cost, the PRC Big-3 NOC will negotiate with its suppliers a revised price list in response to the change in market condition. In the past where there have been material fluctuations in the raw material cost, the PRC Big-3 NOC has adjusted the prices of our OCTG and other oil pipe by revising the price list with us.

As such, we believe we are able to maintain our profitability for the sale of OCTG and other oil pipes (including both standard and high-end products) in the long-run based on the past experience of our Directors;

(iii) upon completion of Phase One Expansion and commencement of commercial production of the OCTG and other oil pipes production lines at our Bohai New District Factory in September 2019, the designed annual production capacity for our OCTG and other oil pipes production line increased from 200,000 tonnes and 250,000 tonnes to 300,000 tonnes and 550,000 tonnes, respectively. Production capacity of OCTG and other oil pipes will further increase upon completion of Phase Two Expansion, which will enable us to capture additional demand from the market.

Although sales of pipe billets are expected to decrease as more pipe billets manufactured by us will be reserved for internal production of OCTG and other oil pipes in the future, the impact of such decrease is expected to be offset by the increase in sales volume of both OCTG and other oil pipes (which have a higher gross profit margin as compared to pipe billets);

(iv) apart from the change in product mix among OCTG, other oil pipes and pipe billets, the increased production capacity for OCTG will also improve our capability in manufacturing high-end OCTG, which are sold at higher average selling price than that with standard specifications and generally have higher gross profit margin. Coupled with the smart production system equipped at the new OCTG production line at our Bohai New District Factory which will further enhance our production quality, cost-effectiveness and efficiency, it is expected that completion of our Phase One Expansion will have a positive impact on our gross profit margin; and

(v) it is expected that following the increase in production capacity upon completion of our Phase One Expansion and Phase Two Expansion, we will gradually reduce the purchase of OCTG from our suppliers. This will further enhance our profitability as production cost of OCTG is generally lower than the purchase cost of OCTG from third-party suppliers.

Our Directors confirmed that, since 30 June 2019 and up to the date of this prospectus, (i) there had been no material adverse changes in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirmed that as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules upon Listing.

FUTURE PLANS

A detailed description of our future plans is set out in the section headed "Business — Business Strategies".

USE OF PROCEEDS

We estimate that the net proceeds (i.e. gross proceeds net of the underwriting fees and commission and the estimated expenses payable by our Company) from the issue of the Offer Shares will be approximately HK$461.4 million (equivalent to RMB415.3 million), based on an Offer Price of HK$1.71 per Offer Share (being the mid-point of the indicative Offer Price range set forth on the "Important" page of this prospectus) and assuming that the Over-allotment Option is not exercised at all. We currently intend to apply such net proceeds from the Global Offering for the following purposes:

- Approximately 88.4%, or HK$407.9 million (equivalent to approximately RMB367.1 million) is expected to be used to fund the Phase Two Expansion. The intended allocation of this portion of the net proceeds is primarily as follows:

Intended applications	Approximate percentage of proceeds
(a) construction of new production facilities and the intelligent automated production line with advanced technologies for OCTG and other oil pipes, including:	61.6% or HK$284.2 million (equivalent to RMB255.8 million)
— approximately 12.6%, or HK$58.1 million (equivalent to RMB52.3 million) as capital expenditure for construction of the factory for OCTG and other oil pipes production line;	
— approximately 49.0%, or HK$226.1 million (equivalent to RMB203.5 million) for acquiring more advanced and automated machineries, equipment and/or system for the manufacture of OCTG and other oil pipes, including, heat treatment equipment, electronic control system and continuous rolling line equipment	

Intended applications	Approximate percentage of proceeds
, among which HK$135.9 million (equivalent to RMB122.3 million) is expected to be used in the year ending 31 December 2020; and HK$148.3 million (equivalent to RMB133.5 million) is expected to be used in the year ending 31 December 2021	
(b) construction of the intelligent automated production line with advanced technologies for pipe billets, including: — approximately 6.8%, or HK$31.4 million (equivalent to RMB28.2 million) as capital expenditure for the transform of pipe billets production line; and — approximately 12.7%, or HK$58.6 million (equivalent to RMB52.8 million) for acquiring more advanced and automated machineries, equipment and/or system for the manufacture of pipe billets, including, EAF furnace, ladle furnace and electronic control system , among which approximately HK$90.0 million (equivalent to RMB81.0 million) is expected to be used in year ending 31 December 2020.	19.5% or HK$90.0 million (equivalent to RMB81.0 million)

Intended applications	Approximate percentage of proceeds
(c) equip the production lines in Phase Two Expansion with intelligent management systems, such as ERP, MES and LIMS, and will utilise robots, sensors, servo control and other artificial intelligence technologies and installation of unmanned intelligent storage system in the production facilities under Phase Two Expansion, among which approximately HK$1.0 million (equivalent to RMB0.9 million) is expected to be used in year ending 31 December 2019 and approximately HK$32.7 million (equivalent to RMB29.4 million) is expected to be used in the year ending 31 December 2021	7.3% or HK$33.7 million (equivalent to RMB30.3 million)

- 2.4%, or HK$11.1 million (equivalent to RMB10.0 million) is expected to be used to strengthen our product research and development and innovation capabilities. The intended allocation of this portion of the net proceeds is primarily as follows:

Intended applications	Approximate percentage of proceeds
(a) developing new products with special features and functionalities, such as OCTG with enhanced heat resistance (耐溫), corrosion resistant (耐蝕), extrusion resistant (耐壓) and other features, special screw threads connector (特殊螺紋接頭) and strengthen training for our R&D staffs, all of which is expected to be used in the year ending 31 December 2019.	1.0% or HK$4.6 million (equivalent to approximately RMB4.2 million)

Intended applications		Approximate percentage of proceeds
(b)	R&D and construction of machineries for the recycling of smoke discharged by EAF furnace to extract metal zinc from smoke and further processed in to scrap metals, all of which is expected to be used in the year ending 31 December 2021.	1.4% or HK$6.5 million (equivalent to RMB5.8 million)

- 2.0%, or HK$9.2 million (equivalent to RMB8.3 million) is expected to be used to strengthen our relationships with key customers, expand our customer base and further expand our sales to overseas markets. The intended allocation of this portion of the net proceeds is primarily as follows:

Intended applications		Approximate percentage of proceeds
(a)	construct a big data centre for us to share and control our products and logistics information with our customers and/or suppliers, among which approximately HK$5.5 million (equivalent to RMB5.0 million) is expected to be used in year ending 31 December 2019	1.2% or HK$5.5 million (equivalent to RMB5.0 million)
(b)	expanding our overseas sales team in the PRC and establish an overseas sales team in Hong Kong through recruiting experienced sales and maintaining an office in Hong Kong, among which approximately HK$3.7 million (equivalent to RMB3.3 million) is expected to be used in year ending 31 December 2019	0.8% or HK$3.7 million (equivalent to RMB3.3 million)

- approximately 7.2% or HK$33.2 million (equivalent to RMB29.9 million) will be used for general replenishment of working capital and other general corporate purpose.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into interest-bearing bank accounts, such as demand deposit accounts, with licensed commercial banks and/or authorised financial institutions in Hong Kong and the PRC.

Assuming that the Over-allotment Option is not exercised at all, the net proceeds from the Global Offering will be approximately HK$496.5 million in the event that the Offer Price is set at HK$1.83 per Offer Share (being the high end of the indicative Offer Price range), or approximately HK$426.3 million in the event that the Offer Price is set at HK$1.59 per Offer Share (being the low end of the indicative Offer Price range).

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will be approximately HK$536.4 million in the event that the Offer Price is set at HK$1.71 per Offer Share (being the mid-point of the indicative Offer Price range), approximately HK$576.8 million in the event that the Offer Price is set at HK$1.83 per Offer Share (being the high end of the indicative Offer Price range), or approximately HK$496.1 million in the event that the Offer Price is set at HK$1.59 per Offer Share (being the low end of the indicative Offer Price range).

In each of the above circumstances, we intend to apply the net proceeds for the various intended uses set out above in the proportions as stated above and the amount of net proceeds to be applied for each intended use will be adjusted accordingly. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

REASONS FOR LISTING

Our Directors consider that the Listing will benefit our Group in different aspects as discussed below:

(i) To strengthen our financial position and enhance our working capital

We require funds to finance our general working capital needs which are generally obtained from different sources such as bank borrowings and internal resources. In choosing between debt financing and equity financing, our Directors consider the nature of the OCTG industry, which the cash outflows for payment of material costs are often incurred in the early stage of our production. On the other hand, we generally grant a credit period of within 90 days from the date of invoice to our customers during the Track Record Period. Therefore, we are required to maintain sufficient working capital during the period between payments and receipts of cash for our business operations. Although we were able to successfully expand our business using internally generated funds and bank borrowings during the Track Record Period and had been able to repay bank loans as they fell due in the past, going forward, we still require working capital to maintain our current capacity for existing orders, as well as extra funding to finance the expansion of our production capacities and other aspects of our business. We believe that it is crucial to maintain a robust liquidity position at all times, particularly in the form of steady and strong level of cash balance, to ensure smooth business operations and be able to devote sufficient resources in the implementation of our business plans. In light of our expansion plan, we will require a much higher working capital to maintain our daily business operations upon the Listing.

Furthermore, heavy reliance on debt financing would subject our Group to the risk of higher interest rate and finance costs and may negatively affect the financial viability of our Group and affect our competitiveness. Our Directors also consider funds raised from the issue of equity are a committed source of fund without any maturity date. As such, our Directors are of the view that equity financing is a more appropriate source at this stage and could lower the finance cost in the long run. Our Directors further consider that debt financing from banks or financial institutions normally requires the pledge of properties or personal guarantee from our Controlling Shareholders which would increase our reliance on our Controlling Shareholders. On the other hand, if our Company is listed, we may have a better position to negotiate with banks and financial institutions when we require debt financing. Our Directors also consider that the Listing allows us to broaden our Shareholder base, strengthen our capital base and provide an efficient and sustainable fund raising platform for our Group to raise further capital in the future when necessary.

(ii) To enhance our corporate profile

By way of the Listing, we can elevate our corporate image and status and provide reassurance and confidence to our customers, which in turn provides a stronger bargaining position when exploring new business. In addition, our Directors are of the view that the Listing will facilitate us to entice new customers, as their confidence will be attached to our reputation, transparent financial condition, standard of internal controls and corporate governance. Upon the Listing, our Directors will be required to maintain a highest standard of ongoing regulatory compliance, which is also an opportunity for us to strive for continuous improvement and supervision, sharpen our competitiveness and ultimately, gain our customers' trust in us.

(iii) To diversify the shareholder base and have more liquidity in trading of Shares

Our Directors believe that the Listing will enhance the liquidity of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the shares that are privately held before the Listing. Hence, our Directors consider that the Listing will enlarge and diversify our Shareholder base and potentially lead to a more liquid market in the trading of our Shares.

(iv) To recognise and reward the contribution of our directors, senior management and employees

Our Directors consider that employing, motivating and retaining members of our senior management team and other skilled personnel has always been critical to our success as a leading OCTG manufacturer in the private sector in the PRC. Therefore, the Listing is considered to be one of the channels through which our employees would be able to share our success and achievement and be committed to the performance and continual success of our Group. We have adopted the Pre-IPO Share Option Scheme and the Share Option Scheme with the aim to recognise, reward and incentivise the contribution of, among others, our Directors, senior management and other staff of our Group to the growth and development of our Group and/or the listing of the Shares on the Main Board. Please refer to the sections headed "Appendix V — Statutory and General Information — Other Information — 16. Pre-IPO Share Option Scheme" and "Appendix V — Statutory and General Information — Other Information — 17. Share Option Scheme" for further details.

HONG KONG UNDERWRITERS

CMBC Securities Company Limited

Guotai Junan Securities (Hong Kong) Limited

Essence International Securities (Hong Kong) Limited

Haitong International Securities Company Limited

Shanxi Securities International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is initially offering for subscription by public in Hong Kong of 30,000,000 Hong Kong Public Offer Shares at the Offer Price under the Hong Kong Public Offering, on and subject to the terms and conditions set forth in this prospectus and the Application Forms. The Hong Kong Underwriters have agreed, on and subject to the terms and conditions in the Hong Kong Underwriting Agreement, to procure applications to subscribe for, or failing which themselves as principals shall subscribe for, the Hong Kong Public Offer Shares.

The Hong Kong Underwriting Agreement is subject to various conditions, which include, without limitation:

(a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus; and

(b) the International Placing Agreement having been executed, becoming unconditional and not having been terminated.

Grounds for termination

The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Underwriters' Representative (for itself and on behalf of the Hong Kong Underwriters) will, subject to the consent of the Sole Sponsor, be entitled by notice to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date:

(i) there shall develop, occur, exist or come into effect:

  (a) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government or orders of any courts, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, nuclear leakage, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the U.S., the BVI, the United Kingdom, the European Union (or any member thereof), the Cayman Islands, Japan, Australia, or any other jurisdiction relevant to any member of our Group (together, the "**Specific Jurisdictions**"); or

(b) any change or any development involving a prospective change, or any event or series of events likely to result in any change or development or a prospective change, in any local, regional, national, or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in any stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting the Specific Jurisdictions; or

(c) any new law or any change or any development involving a prospective change or any event or circumstance likely to result in a change in existing laws or development involving a prospective change in (or in the interpretation or application by any court or other competent authority in or affecting) the Specific Jurisdictions; or

(d) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or Tokyo Stock Exchange; or the imposition of any general moratorium on commercial banking activities in the Specific Jurisdictions declared by the relevant authorities or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services or procedures in any of the Specific Jurisdictions; or

(e) the imposition of economic sanctions, in whatever form, directly or indirectly, by or on any of the Specific Jurisdictions; or

(f) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment laws (including, without limitation, a material devaluation of the Hong Kong dollars or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Specific Jurisdictions; or

(g) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(h) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or

(i) our chairman or chief executive officer or financial controller vacating his office; or

(j) the commencement by any governmental, regulatory or political body or organisation in any relevant jurisdiction commencing any investigation or take other action, against any Director; or

(k) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(l) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer of the Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(m) any material breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Placing Agreement (other than upon any of the Sole Sponsor, the Hong Kong Underwriters or the International Underwriters); or

(n) any event, act or omission which gives rise to any liability of any of our Company, our executive Directors or the Controlling Shareholders under the Hong Kong Underwriting Agreement pursuant to the indemnities contained therein; or

(o) any adverse change, or any development involving a prospective adverse change or development in conditions, in the assets, liabilities, business affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of any member of our Group; or

(p) any material breach of any warranties under the Hong Kong Underwriting Agreement or any event or circumstances rendering such warranties be or would be when repeated untrue, incorrect or misleading in any material respect; or

(q) a petition or an order for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Underwriters' Representative (for itself and on behalf of the Hong Kong Underwriters):

(1) has or will have or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Company or any of its subsidiaries taken as a whole; or

(2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or

(3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed; or

(4) has or will have or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(ii) there has come to the notice of the Underwriters' Representative:

(a) that any statement contained in this prospectus and the Application Forms, the formal notice issued or used by or on behalf of our Group in connection with the Hong Kong Public Offering (the "**HKPO Documents**") and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue or incorrect in any respect or misleading, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of the HKPO Documents is not fair and honest and based on reasonable assumptions, when taken as a whole; or

(b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission from any of the HKPO Documents and/or in any notices, announcements, advertisements, communications or other documents including any supplement or amendment thereto; or

(c) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares (including Shares to be allotted and issued under the Over-allotment Option) pursuant to the terms of the Global Offering; or

(d) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(e) that any person (other than the Underwriters' Representative, the Sole Sponsor or any of the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus and the Application Forms and any other document issued, given or used by or on behalf of our Company in connection with the contemplated offering of the Offer Shares or otherwise in connection with the Global Offering, including, without limitation, any roadshow materials relating to the Offer Shares and, in each case, all amendments or supplements thereto (the "**Offering Documents**") or to the issue of any of the Offering Documents; or

(f) approval by the Listing Committee of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(g) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

Upon the occurrence of any event as above provided, the Underwriters' Representative (for itself and on behalf of the Hong Kong Underwriters) will, subject to the consent of the Sole Sponsor, be entitled to, upon giving notice in writing to our Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor and each of our Controlling Shareholders and executive Directors has undertaken to each of the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that he/she/it will procure our Company that, except for the offer of the Offer Shares pursuant to the Global Offering (including the grant of, and the allotment and issue of the Shares pursuant to the exercise of, the Over-allotment Option and any options granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date ("**First Six-Month Period**"), not to, and to procure each other member of our Group not to, without the prior written consent of the Underwriters' Representative (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) (except for allotment of shares or securities by our subsidiary to our Company or other members of our Group) offer, accept subscription for, pledge, lend, assign, mortgage, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, or buyback, any of the share capital of our Company or other securities of any subsidiary or any securities convertible into or exercisable or exchangeable for or that represent the right to receive, or interests in, such share capital or any derivatives with the Shares or the shares of any subsidiary as underlying securities; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or

(c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above;

whether any of the foregoing transactions described above is to be settled by delivery of share capital or such other securities, in cash or otherwise or publicly disclose that our Group will or may enter into any transaction described above. We have further agreed that, during the period of six months immediately following the expiry of the First Six-Month Period ("**Second Six-Month Period**"), in the event that our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, we shall take all reasonable steps to ensure that it will not create a disorderly or false market for any of our Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters and the Sole Sponsor that, except pursuant to the Stock Borrowing Agreement:

(a) during the First Six-Month Period, he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Underwriters' Representative and our Company and unless in compliance with the requirements of the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares in respect of which he or it is the beneficial owner (directly or indirectly) as at the Listing Date or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities (together, the "**Relevant Securities**"); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities, in cash or otherwise; or (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above;

(b) during the Second Six-Month Period, he/it shall not, and shall procure that the relevant registered holder(s) and their respective associates or companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Underwriters' Representative and our Company and unless in compliance with the Listing Rules, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Relevant Securities held by him/it or any of his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) or would together with other Controlling Shareholders cease to be a group of controlling shareholders (as defined in the Listing Rules);

(c) in the event of a disposal of any Relevant Securities or our Company's securities or any interest therein within the Second Six-Month Period, he/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of our Company; and

(d) he/it shall, and shall procure that his/its associates and companies controlled by and nominees or trustees holding in trust for him/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/it or by the registered holder controlled by him/it of any Shares.

Each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to the expiry of the first 12 months from the Listing Date, he/it will:

(a) when he/it pledges or charges any securities or interests in the Relevant Securities, immediately inform us, the Sole Sponsor and the Underwriters' Representative in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in our securities will be sold, transferred or disposed of, immediately inform us, the Sole Sponsor and the Underwriters' Representative in writing of such indications.

Our Company shall notify the Stock Exchange as soon as our Company has been informed of such event and shall make a public disclosure by way of announcement in accordance with the Listing Rules.

Undertakings by Mr. Jia and Glorious Year

Pursuant to the lock-up deed dated 25 October 2019 and executed by Mr. Jia and Glorious Year in favour of the Sole Sponsor, the Underwriters' Representative (for itself and on behalf of the Underwriters) and our Company, each of Mr. Jia and Glorious Year has undertaken to the Sole Sponsor, the Underwriters' Representative (for itself and on behalf of the Underwriters) and our Company that he/it shall not, and shall procure that, any of the relevant registered holder(s) and his/its respective associates (as defined in the Listing Rules) and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Underwriters' Representative and our Company and unless in compliance with the requirements of the Listing Rules, during the First Six-Month Period:

(a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities in respect of which he/it is shown in this prospectus to be the beneficial owner; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares or securities, whether any of the foregoing transactions is to be settled by delivery of the Shares or such other securities, in cash or otherwise; or

(c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or

(d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above.

The above undertakings given by each of Mr. Jia and Glorious Year do not prevent him/it from using the Shares beneficially owned by him/it as security (including a charge or pledge) in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Restrictions and undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Controlling Shareholders and/or Polaris Swift

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders and Polaris Swift has undertaken to the Stock Exchange and our Company that, he/it shall not, and shall procure that the relevant registered holder(s) shall not, at any time during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date ("**First Lock-up Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the Shares or other securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner.

Furthermore, each of our Controlling Shareholders has undertaken to the Stock Exchange and our Company that in the period of the six months commencing on the date on which the First Lock-up Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances (save pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), he/it would cease to be a group of controlling shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that he/it will, within a period of commencing on the date by reference to which disclosure of his/its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of:

(a) any pledges or charges of any Shares or other securities of our Company beneficially owned by him/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07 of the Listing Rules, and the number of such Shares or other securities of our Company so pledged or charged; and

(b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of.

Restrictions on our Company

Pursuant to Rule 10.08 of the Listing Rules, no Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except pursuant to the Global Offering (including the exercise of the Over-allotment Option) and the Capitalisation Issue or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

International Placing

International Placing Agreement

In connection with the International Placing, it is expected that our Company, our Controlling Shareholders and executive Directors will enter into the International Placing Agreement with the Sole Sponsor, the Underwriters' Representative and the International Underwriters on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below.

Under the International Placing Agreement, subject to the conditions set forth therein, the International Underwriters are expected to procure subscribers to subscribe for, or failing which they shall subscribe for, the International Placing Shares initially being offered pursuant to the International Placing. It is expected that the International Placing Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Prospective investors shall be reminded that in the event that the International Placing Agreement is not entered into, the Global Offering will not proceed. The International Placing Agreement is conditional on and subject to the Hong Kong Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the International Placing Agreement, our Company and Controlling Shareholders will make similar undertakings as those given pursuant to the Hong Kong Underwriting Agreement as described in the paragraph headed "Undertakings to the Hong Kong Underwriters" above in this section.

Our Company is expected to grant to the International Underwriters the Over-allotment Option. The Underwriters' Representative, on behalf of the International Underwriters, can exercise the Over-allotment Option to require our Company to allot and issue up to an aggregate of 45,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price per International Placing Share, to cover over-allocations in the International Placing, if any, and/or to satisfy the obligations of the Stabilising Manager to return the borrowed securities, if any, under the Stock Borrowing Agreement.

The Over-allotment Option may be exercised by the Underwriters' Representative any time from the Listing Date and until the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, being Saturday, 30 November 2019. The purpose of the exercise of the Over-allotment Option is to settle any over-allocations in the International Placing, if any. Please refer to the section headed "Structure and Conditions of the Global Offering" for further details of the Over-allotment Option.

Commission, fees and expenses

The Hong Kong Underwriters are expected to receive a gross underwriting commission of 2.5% of the aggregate Offer Price of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Placing and any International Placing Shares reallocated from the International Placing to the Hong Kong Public Offering, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters.

Based on the Offer Price of HK$1.71 per Offer Share (being the mid-point of the indicative range of the Offer Price), the aggregate commission, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fees, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount to approximately RMB45.7 million in total (assuming the Over-allotment Option is not exercised), and are payable by our Company. We will also pay for all expenses in connection with any exercise of the Over-allotment Option.

In addition, our Company may, at its sole discretion, pay the Underwriters' Representative an incentive fee of up to 1% of the aggregate Offer Price of the Hong Kong Public Offer Shares (excluding any International Placing Shares reallocated to the Hong Kong Public Offering).

SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a sponsorship fee to the Global Offering. The Underwriters' Representative and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission, fees and expenses" above in this section.

We have appointed CMBC International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

Save as disclosed above, none of the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers or the Underwriters is interested legally or beneficially in any Shares or other securities of our Company or any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase any Shares or other securities of our Company or any members of our Group or has any interest in the Global Offering.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and/or the International Placing Agreement.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors and the Underwriters' Representative will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Underwriters' Representative (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, which is currently scheduled on Thursday, 31 October 2019, or such later date as the Underwriters' Representative (for itself and on behalf of the Underwriters) and our Company may agree but in any event no later than on Wednesday, 6 November 2019. **If, for any reason, the Underwriters' Representative (for itself and on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price by Wednesday, 6 November 2019, the Global Offering will not become unconditional and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the low end of the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK$1.83 per Offer Share and is expected to be not less than HK$1.59 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Underwriters' Representative (for itself and on behalf of the Underwriters) may, subject to the consent of the Sole Sponsor, where considered appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the International Placing, and with the consent of our Company, reduce the number of Offer Shares initially offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published on our Company's website at **www.dalipal.com** and the website of the Stock Exchange at **www.hkexnews.hk**, respectively, notices of the reduction.

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation from each Director or revision, as appropriate, of the working capital statement as currently disclosed in the section headed "Financial Information — Working Capital Sufficiency" in this prospectus, the Global Offering statistics as currently set out in the section headed "Summary — Global Offering Statistics" in this prospectus, the use of proceeds as currently disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus and any other financial information which may change as a result of such reduction. In the absence of any notice being published of a reduction in the number of Offer Shares and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the indicative Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

We expect to announce the final Offer Price, the level of indication of interest in the International Placing and the level of applications and the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offering on or before Thursday, 7 November 2019 on our Company's website at **www.dalipal.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC via CCASS or by applying through **HK eIPO White Form** service which will be made available as described under the section headed "How to Apply for the Hong Kong Public Offer Shares — 11. Publication of Results".

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$1.83 per Offer Share and is expected to be not less than HK$1.59 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK$1.83 per Offer Share plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, amounting to a total of HK$3,696.88 per board lot of 2,000 Offer Shares.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK$1.83 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest. Further details are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares".

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional upon the satisfaction of all of the following conditions:

- the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus (including the Shares to be issued under the Capitalisation Issue, any Shares which may be issued upon exercise of options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme and any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), and such listing and permission not having been subsequently revoked prior to the commencement of trading in our Shares on the Stock Exchange;

- the Offer Price having been duly determined and the execution and delivery of the International Placing Agreement and the Stock Borrowing Agreement on or about the Price Determination Date; and

- the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Underwriters' Representative for itself and on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

The consummation of each of the International Placing and the Hong Kong Public Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering on our Company's website at **www.dalipal.com** and the website of the Stock Exchange at **www.hkexnews.hk** on the day after such lapse. In such situation, we will return all application monies to the applicants, without interest and on the terms described in the section headed "How to Apply for the Hong Kong Public Offer Shares — 13. Refund of Application Monies". In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving bankers or other banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

We expect to dispatch share certificates for the Offer Shares on or before Thursday, 7 November 2019. However, these share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 8 November 2019 provided that:

- the Global Offering has become unconditional in all respects; and
- the right of termination as described in the section headed "Underwriting" has not been exercised.

THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of 300,000,000 Shares will initially be made available under the Global Offering, of which 270,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the International Placing. The remaining 30,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will initially be offered for subscription under the Hong Kong Public Offering. The number of Shares offered for subscription under the International Placing and the Hong Kong Public Offering will be subject to reallocation on the basis described below and the number of Shares offered for subscription under the International Placing will also be subject to the exercise of the Over-allotment Option below. No pre-emption right or right to subscribe for the Offer Shares has been granted.

THE INTERNATIONAL PLACING

Our Company is initially offering, at the Offer Price, 270,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "Reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing" below in this section), representing 90% of the total number of Shares being initially offered under the Global Offering (before any exercise of the Over-allotment Option), for subscription by way of International Placing. The International Placing will be managed by the Underwriters' Representative and is expected to be fully underwritten by the International Underwriters. Pursuant to the International Placing, it is expected that the International Underwriters or any selling agents which they nominate will, on behalf of our Company, conditionally place the International Placing Shares at the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee with selected professional, institutional, corporate and other investors. Professional and institutional investors generally include brokers, dealers, companies and fund managers, whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. It is expected that the International Placing Agreement will be executed on or around the Price Determination Date.

Allocation of the International Placing Shares to professional, institutional, corporate and other investors pursuant to the International Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to purchase further Shares, or hold or sell the Shares placed, after Listing. Such allocation is intended to result in a distribution of the International Placing Shares on the basis which would lead to the establishment of a solid broad shareholder base to the benefit of our Company and our Shareholders taken as a whole. Investors to whom International Placing Shares are offered are required to undertake not to apply for the Hong Kong Public Offer Shares under the Hong Kong Public Offering. The International Placing is subject to the conditions stated in the paragraph headed "Conditions of the Global Offering" above in this section.

OVER-ALLOTMENT OPTION

It is expected that under the International Placing Agreement, our Company will grant the Over-allotment Option to the International Underwriters, exercisable at the sole discretion of the Underwriters' Representative (for itself and on behalf of the International Underwriters) to require our Company at any time within a period commencing from the Listing Date and ending on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, to allot and issue up to an aggregate of 45,000,000 additional new Shares, representing 15% of the Offer Shares initially being offered under the Global Offering, on the same terms as those applicable to the Global Offering, to cover over-allocations in the International Placing. The additional Shares to be allotted and issued pursuant to the exercise of the Over-allotment Option will be allocated to the International Placing and/or to satisfy the obligation of the Underwriters' Representative to return Shares borrowed under the Stock Borrowing Agreement. The Underwriters' Representative may also cover any over-allocations under the International Placing through the purchase of Shares in the secondary market or otherwise as may be permitted under applicable laws. Any purchases of Shares in the market to cover the over-allocations will be made at prices not exceeding the Offer Price. The number of Shares that may be over-allocated may not be greater than the number of Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option. Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 20% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue. If the Over-allotment Option is exercised in full, the Offer Shares (including the Shares allotted and issued pursuant to the exercise of the Over-allotment Option) will represent about 22.3% of the enlarged issued share capital of our Company immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

Based on an Offer Price of HK$1.71 per Offer Share (being the mid-point of the Offer Price range between HK$1.59 per Offer Share and HK$1.83 per Offer Share), the net proceeds of the Global Offering, assuming that the Over-allotment Option is not exercised and after deducting related expenses, are estimated to be about HK$461.4 million. If the Over-allotment Option is exercised in full, our Company will receive additional net proceeds of about HK$75.0 million, after deducting brokerages, commissions and expenses attributable to the exercise of the Over-allotment Option.

The Hong Kong Public Offering is open to the public as well as to institutional, professional and other investors in Hong Kong. The International Placing involves selective marketing of the International Placing Shares by the International Underwriters to professional, institutional, corporate and other investors. Investors may either apply for the Shares under the Hong Kong Public Offering or indicate an interest for the Shares under the International Placing, and may only receive an allocation of Shares under the Hong Kong Public Offering or the International Placing. The Offer Shares are not available for subscription by existing beneficial owners of the Shares, our Directors, chief executive of our Company or any of its subsidiaries or their respective close associates, or any other core connected persons (as defined in Chapter 1 of the Listing Rules) of our Company or persons who will become core connected persons (as defined in Chapter 1 of the Listing Rules) of our Company immediately upon completion of the Global Offering.

THE HONG KONG PUBLIC OFFERING

Our Company is initially offering, at the Offer Price, 30,000,000 Shares (subject to re-allocation as mentioned in the paragraph headed "Reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing" below in this section), representing 10% of the total number of Shares being initially offered under the Global Offering, for subscription under the Hong Kong Public Offering (before any exercise of the Over-allotment Option). The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. Applicants for the Hong Kong Public Offer Shares are required on application to pay the Offer Price plus 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Hong Kong Public Offer Shares will be required to give an undertaking and confirmation in the relevant Application Form submitted by him/her that he/she has not applied for nor taken up any International Placing Shares nor participated in the International Placing.

Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offering is liable to be rejected.

The total number of the Offer Shares available under the Hong Kong Public Offering is to be divided into two pools of 15,000,000 Hong Kong Public Offer Shares for each of pool A and pool B, respectively, for allocation purposes:

- Pool A: The Hong Kong Public Offer Shares in Pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) or less; and

- Pool B: The Hong Kong Public Offer Shares in Pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy payable) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B but not both. Multiple applications or suspected multiple applications within either pool or between pools and any application made for more than 100% of the Hong Kong Public Offer Shares initially available under either pool A or pool B will be rejected.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering, both in relation to pool A or pool B, will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Public Offer Shares validly applied for by each applicant. When there is over subscription under the Hong Kong Public Offering, allocation of the Hong Kong Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Public Offer Shares than others who have applied for the same number of the Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

Applications under the Hong Kong Public Offering from investors receiving the International Placing Shares under the International Placing will be identified and rejected and investors receiving the Hong Kong Public Offer Shares under the Hong Kong Public Offering will not be offered the International Placing Shares under the International Placing. Multiple applications or suspected multiple applications or applications for more than 50% of the Hong Kong Public Offer Shares initially available in either pool A or pool B for public subscription under the Hong Kong Public Offering (i.e. to apply for more than 15,000,000 Hong Kong Public Offer Shares) are liable to be rejected.

The Hong Kong Public Offering is subject to the conditions as stated in the paragraph headed "Conditions of the Global Offering" above in this section.

REALLOCATION OF OFFER SHARES BETWEEN THE HONG KONG PUBLIC OFFERING AND THE INTERNATIONAL PLACING

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offering is subject to reallocation. Paragraph 4.2 of the Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached.

In the event that the International Placing Shares are fully subscribed or oversubscribed under the International Placing:

(a) if the Hong Kong Public Offer Shares are undersubscribed, the Underwriters' Representative, subject to the consent of the Sole Sponsor, in its discretion, may (but shall have no obligation to) reallocate all or any of the unsubscribed Hong Kong Public Offer Shares from the Hong Kong Public Offering to the International Placing;

(b) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, then the Underwriters' Representative, subject to the consent of the Sole Sponsor, in its discretion, may (but shall have no obligation to) reallocate Offer Shares to the Hong Kong Public Offering from the International Placing, and make available such reallocated Offer Shares as additional Hong Kong Public Offer Shares, provided that such reallocation shall comply with the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange;

(c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 60,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of 90,000,000 Shares will be available for subscription under the Hong Kong Public Offering, representing 30% of the total number of the Offer Shares initially available for subscription under the Global Offering (before any exercise of the Over-allotment Option);

(d) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 90,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of 120,000,000 Shares will be available for subscription under the Hong Kong Public Offering, representing 40% of the total number of the Offer Shares initially available for subscription under the Global Offering (before any exercise of the Over-allotment Option); and

(e) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more of the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 120,000,000 Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of 150,000,000 Shares will be available for subscription under the Hong Kong Public Offering, representing 50% of the total number of the Offer Shares initially available for subscription under the Global Offering (before any exercise of the Over-allotment Option).

In the event that the International Placing Shares are undersubscribed under the International Placing:

(a) if the Hong Kong Public Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of the prospectus, the Application Forms and the Underwriting Agreements; and

(b) if the Hong Kong Public Offer Shares are fully subscribed or oversubscribed, then the Underwriters' Representative, subject to the consent of the Sole Sponsor, in its discretion, may (but shall have no obligation to) reallocate Offer Shares to the Hong Kong Public Offering from the International Placing, and make available such reallocated Offer Shares as additional Hong Kong Public Offer Shares, provided that such reallocation shall comply with the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange.

In particular, if (i) the International Placing is not fully subscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed; or (ii) the International Placing is fully subscribed or oversubscribed and the Hong Kong Public Offering is fully subscribed or oversubscribed with the number of Offer Shares validly applied for in the Hong Kong Public Offering representing less than 15 times of the number of Shares initially available for subscription under the Hong Kong Public Offering, the Underwriters' Representative has the authority to reallocate International Placing Shares originally included in the International Placing to the Hong Kong Public Offering in such number as it deems appropriate, provided that in accordance with the Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, (i) the number of International Placing Shares reallocated to the Hong Kong Public Offering should not exceed 30,000,000 Shares, representing 10% of the Offer Shares initially available under the Global Offering, increasing the total number of Offer Shares available under the Hong Kong Public Offering to 60,000,000 Shares; and (ii) the final Offer Price should be fixed at the low end of the indicative Offer Price range (i.e. HK$1.59 per Offer Share) stated in this prospectus.

Details of any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing will be disclosed in the results announcement, which is expected to be made on Thursday, 7 November 2019.

STABILISATION ACTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the Offer Price. In Hong Kong, activities aimed at reducing the market price are prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, (for itself and on behalf of the Underwriters and not as agent for our Company) may over-allocate Shares or effect transactions with a view to stabilising or supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager, or any person acting for it, to conduct any such stabilisation action which, if commenced, may be discontinued at any time at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it, and must be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 45,000,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilisation action cannot be taken to support the price of the Offer Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering (the "**Stabilisation Period**"). The Stabilisation Period is expected to expire on Saturday, 30 November 2019 and that after this date, when no further stabilising action may be taken, demand for our Shares, and therefore its price, could fall.

During the Stabilisation Period, the Stabilising Manager or any person acting for it, may purchase or agree to purchase, or offer, the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, which will be effected in compliance with all applicable laws and regulatory requirements, including the Securities and Futures (Price Stabilising) Rules made under the SFO. In connection with any such stabilisation actions as described above, the Stabilising Manager, or any person acting for it, may allocate a greater number of Shares than the number that is initially offered, or sell or agree to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares. It may close out any such short position by exercising the Over-allotment Option, as described above. It may also agree to sell or sell any Shares acquired by it in the course of any stabilisation transactions in order to liquidate any position that has been established by such action.

The Stabilising Manager may, in connection with the stabilising action, maintain a long position in the Shares. The size of the long position, and the time period for which the Stabilising Manager will maintain such a position during the Stabilisation Period, are at the sole discretion of the Stabilising Manager and is uncertain. In the event that the Stabilising Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Investors should be aware that the price of the Shares cannot be assured to stay at or above its Offer Price by the taking of any stabilising action. Stabilisation bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Offer Shares.

In order to facilitate the settlement of over-allocations, the Stabilising Manager, or its authorised agents may, among other means, purchase Shares in the secondary market, enter into stock borrowing arrangements with holders of Shares, exercise the Over-allotment Option, engage in a combination of these means or otherwise as may be permitted under applicable laws. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

In this connection, the Stabilising Manager will enter into the Stock Borrowing Agreement with Rosy Astral whereby the Stabilising Manager may borrow up to 45,000,000 Shares from Rosy Astral, equivalent to the maximum number of additional Shares to be offered upon full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. The Stock Borrowing Agreement is not subject to the restrictions of Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, provided the following requirements under Rule 10.07(3) of the Listing Rules are complied with:

- the Stock Borrowing Agreement will only be effected by the Stabilising Manager for covering any short position arising from over-allocations under the International Placing prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Rosy Astral will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Rosy Astral or its nominees on or before the third business day, a day that is not a Saturday, Sunday or public holiday in Hong Kong, following the earlier of (i) the last day on which the Over-allotment Option may be exercised, and (ii) the day on which the Over-allotment Option is exercised in full;
- borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Rosy Astral in relation to the Stock Borrowing Agreement.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 8 November 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 8 November 2019. The Shares will be traded in board lots of 2,000 Shares.

1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at **www.hkeipo.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Underwriters' Representative, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Underwriters' Representative may accept it at its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **HK eIPO White Form** service at **www.hkeipo.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 28 October 2019 until 12:00 noon on Thursday, 31 October 2019 from:

(i) the following offices of the Hong Kong Underwriters:

CMBC Securities Company Limited
45/F, One Exchange Square
8 Connaught Place
Central, Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Essence International Securities (Hong Kong) Limited
39/F, One Exchange Square
Central
Hong Kong

Haitong International Securities Company Limited
22/F Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Shanxi Securities International Limited
Unit A 29/F Admiralty Center Tower 1
18 Harcourt Road
Admiralty
Hong Kong

(ii) any of the following branches of the receiving bank for the Hong Kong Public Offering:

Bank of China (Hong Kong) Limited

District	Branch name	Branch address
Hong Kong Island	Gilman Street Branch	136 Des Voeux Road Central, Hong Kong
	Aberdeen Branch	25 Wu Pak Street, Aberdeen, Hong Kong
Kowloon	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong, Kowloon
	Yu Chau Street Branch	42–46 Yu Chau Street, Sham Shui Po, Kowloon
New Territories	Fo Tan Branch	No 2, 1/F Shatin Galleria, 18–24 Shan Mei Street, Fo Tan, New Territories
	Kwai Cheong Road Branch	40 Kwai Cheong Road, Kwai Chung, New Territories

You can collect a **YELLOW** Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 28 October 2019 until 12:00 noon on Thursday, 31 October 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — DALIPAL HOLDINGS PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

- **Monday, 28 October 2019 — 9:00 a.m. to 5:00 p.m.**
- **Tuesday, 29 October 2019 — 9:00 a.m. to 5:00 p.m.**
- **Wednesday, 30 October 2019 — 9:00 a.m. to 5:00 p.m.**
- **Thursday, 31 October 2019 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 31 October 2019, the last application day or such later time as described in "10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Underwriters' Representative (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

(ii) agree to comply with Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;

(viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving banks, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisors and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisors will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Underwriters' Representative will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the "2. Who Can Apply" section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to the **HK eIPO White Form** Service Provider at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 28 October 2019 until 11:30 a.m. on Thursday, 31 October 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 31 October 2019 or such later time specified under "10. Effects of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of Companies (Winding Up and Miscellaneous Provisions) Ordinance.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System **https://ip.ccass.com** (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Underwriters' Representative and our Hong Kong Branch Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, the Directors and the Underwriters' Representative will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving banks, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisors and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Public Offer Shares. Instructions for more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **Monday, 28 October 2019 — 9:00 a.m. to 8:30 p.m.**
- **Tuesday, 29 October 2019 — 8:00 a.m. to 8:30 p.m.**
- **Wednesday, 30 October 2019 — 8:00 a.m. to 8:30 p.m.**
- **Thursday, 31 October 2019 — 8:00 a.m. to 12:00 noon**

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 28 October 2019 until 12:00 noon on Thursday, 31 October 2019 (24 hours daily, except on Thursday, 31 October 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 31 October 2019, the last application day or such later time as described in "— 10. Effect of Bad Weather and/or Extreme Conditions on the Opening of the Application Lists" in this section.

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving banks, the Underwriters' Representative, the Underwriters and any of their respective advisors and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Underwriters' Representative, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 31 October 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.hkeipo.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed "Structure and Conditions of the Global Offering — Determining the Offer Price".

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 31 October 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Thursday, 31 October 2019 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Thursday, 7 November 2019 on our Company's website at **www.dalipal.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.dalipal.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m., Thursday, 7 November 2019;

- from the designated results of allocations website at **www.tricor.com.hk/ipo/result** (or **www.hkeipo.hk/IPOResult**) with a "search by ID" function on a 24-hour basis from 8:00 a.m., Thursday, 7 November 2019 to 12:00 midnight, Wednesday, 13 November 2019;

- by telephone enquiry line by calling +852 3691-8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 7 November 2019 to Tuesday, 12 November 2019 (excluding Saturday, Sunday and Public Holiday);

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 7 November 2019 to Monday, 11 November 2019 at all the receiving bank designated branches referred to above.

If our Company accepts your offer to subscribe (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Underwriters' Representative, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of Hong Kong Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Underwriters' Representative believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$1.83 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure and Conditions of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 7 November 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangements for dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 7 November 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 8 November 2019 provided that the Global Offering has become unconditional and the right of termination described in the section headed "Underwriting" has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 7 November 2019 or such other date as is notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for fewer than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 7 November 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 7 November 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 7 November 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)

For Hong Kong Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 7 November 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form Service

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 7 November 2019, or such other date as is notified by our Company as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 7 November 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Public Offer Shares

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 7 November 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "— 11. Publication of Results" above on Thursday, 7 November 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 7 November 2019 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 7 November 2019. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 7 November 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-58, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF DALIPAL HOLDINGS LIMITED AND CMBC INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Dalipal Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-58, which comprises the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the statements of financial position of the Company as at 31 December 2018 and 30 June 2019, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-58 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 October 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement. Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 30 June 2019 and the Company's financial position as at 31 December 2018 and 30 June 2019, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises 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 six months ended 30 June 2018 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 23(e) to the Historical Financial Information which contains information about dividends paid by the Company in respect of the Track Record Period.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 October 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

Consolidated statements of profit or loss and other comprehensive income
(Expressed in Renminbi ("RMB"))

		Years ended 31 December			Six months ended 30 June	
		2016	**2017**	**2018**	**2018**	**2019**
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Revenue	4	747,867	2,276,874	3,094,823	1,362,949	1,444,000
Cost of sales		(701,655)	(1,835,200)	(2,503,344)	(1,070,490)	(1,177,200)
Gross profit	4(b)	46,212	441,674	591,479	292,459	266,800
Other income	5	19,053	11,375	5,326	5,998	4,480
Selling expenses		(24,964)	(49,778)	(56,564)	(25,436)	(30,690)
Administrative expenses		(57,260)	(72,168)	(111,779)	(47,337)	(61,728)
(Loss)/profit from operations		(16,959)	331,103	428,462	225,684	178,862
Finance costs	6(a)	(46,059)	(56,791)	(73,202)	(35,047)	(35,038)
(Loss)/profit before taxation	6	(63,018)	274,312	355,260	190,637	143,824
Income tax	7	10,053	(42,103)	(54,062)	(28,717)	(26,792)
(Loss)/profit and total comprehensive income for the year/period		(52,965)	232,209	301,198	161,920	117,032
Attributable to:						
Equity shareholders of the Company		(52,965)	232,209	301,198	161,920	115,758
Non-controlling interests		—	—	—	—	1,274
(Loss)/profit and total comprehensive income for the year/period		(52,965)	232,209	301,198	161,920	117,032
(Loss)/earnings per share						
Basic and diluted	10	N/A	N/A	N/A	N/A	N/A

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of financial position

(Expressed in RMB)

		At 31 December			At 30 June
		2016	2017	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	11	1,131,141	1,145,111	1,561,050	1,790,968
Deferred tax assets	21(b)	44,591	5,362	162	1,299
		1,175,732	1,150,473	1,561,212	1,792,267
Current assets					
Inventories	13	260,009	374,963	419,670	385,056
Trade and bills receivables	14	242,893	558,581	633,645	842,198
Prepayments, deposits and other receivables	15	63,827	63,013	110,349	76,428
Income tax recoverable	21(a)	1,767	2	1,012	—
Cash at bank and on hand	16	119,578	395,267	391,207	482,862
		688,074	1,391,826	1,555,883	1,786,544
Current liabilities					
Trade and bills payables	17	298,253	406,632	395,798	326,670
Other payables and accruals	18	88,279	139,861	303,239	276,733
Loans from a related party	26(c)	13,500	831	—	—
Interest-bearing bank borrowings	19(a)	492,767	740,810	1,345,010	1,322,453
Lease liabilities	20	—	—	—	895
Current taxation	21(a)	—	1,109	—	7,909
		892,799	1,289,243	2,044,047	1,934,660
Net current (liabilities)/assets		(204,725)	102,583	(488,164)	(148,116)
Total assets less current liabilities		971,007	1,253,056	1,073,048	1,644,151
Non-current liabilities					
Interest-bearing bank borrowings	19(b)	316,000	366,000	310,000	731,500
Lease liabilities	20	—	—	—	623
Deferred tax liabilities	21(b)	—	—	—	5,206
Deferred income	22	826	666	506	10,456
		316,826	366,666	310,506	747,785
NET ASSETS		654,181	886,390	762,542	896,366
CAPITAL AND RESERVES	23				
Share capital		—	—	85	88
Reserves		654,181	886,390	755,060	887,607
Total equity attributable to equity shareholders of the Company		654,181	886,390	755,145	887,695
Non-controlling interests		—	—	7,397	8,671
TOTAL EQUITY		654,181	886,390	762,542	896,366

The accompanying notes form part of the Historical Financial Information.

Statements of financial position of the Company
(Expressed in RMB)

	Note	At 31 December 2018 *RMB'000*	At 30 June 2019 *RMB'000*
Non-current assets			
Investment in a subsidiary	12	*	*
Current assets			
Amounts due from equity shareholders of the Company		85	85
Amounts due from subsidiaries		—	22,903
		85	22,988
Current liabilities			
Amounts due to a subsidiary		*	*
Net current assets		85	22,988
NET ASSETS		85	22,988
CAPITAL AND RESERVES	23		
Share capital		85	88
Reserves		—	22,900
TOTAL EQUITY		85	22,988

* Amount less than RMB1,000.

The accompanying notes form part of the Historical Financial Information.

Consolidated statements of changes in equity

(Expressed in RMB)

	Attributable to equity shareholders of the Company						
	Share capital	Share premium	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note 23(b)	*Note 23(c)*	*Note 23(d)*				
Balance at 1 January 2016	—	—	459,747	247,399	707,146	—	707,146
Changes in equity for the year ended 31 December 2016:							
Loss and total comprehensive income for the year	—	—	—	(52,965)	(52,965)	—	(52,965)
Balance at 31 December 2016 and 1 January 2017	—	—	459,747	194,434	654,181	—	654,181
Changes in equity for the year ended 31 December 2017:							
Profit and total comprehensive income for the year	—	—	—	232,209	232,209	—	232,209
Appropriation to reserves	—	—	5,254	(5,254)	—	—	—
Balance at 31 December 2017 and 1 January 2018	—	—	465,001	421,389	886,390	—	886,390
Changes in equity for the year ended 31 December 2018:							
Profit and total comprehensive income for the year	—	—	—	301,198	301,198	—	301,198
Issuance of shares *(Note 23(b))*	85	—	—	—	85	—	85
Appropriation to reserves	—	—	2,257	(2,257)	—	—	—
Distributions *(Note 23(e))*	—	—	—	(453,033)	(453,033)	—	(453,033)
Effect on equity arising from a group reorganisation *(Note 23(d))*	—	—	20,505	—	20,505	7,397	27,902
Balance at 31 December 2018 and 1 January 2019	85	—	487,763	267,297	755,145	7,397	762,542
Changes in equity for the six months ended 30 June 2019:							
Profit and total comprehensive income for the period	—	—	—	115,758	115,758	1,274	117,032
Issuance of shares *(Note 23(b))*	3	22,632	(5,843)	—	16,792	—	16,792
Balance at 30 June 2019	88	22,632	481,920	383,055	887,695	8,671	896,366
Balance at 31 December 2017 and 1 January 2018	—	—	465,001	421,389	886,390	—	886,390
Changes in equity for the six months ended 30 June 2018 (unaudited):							
Profit and total comprehensive income for the period (unaudited)	—	—	—	161,920	161,920	—	161,920
Distributions *(Note 23(e))* (unaudited)	—	—	—	(52,854)	(52,854)	—	(52,854)
Balance at 30 June 2018 (unaudited)	—	—	465,001	530,455	995,456	—	995,456

The accompanying notes form part of the Historical Financial Information.

Consolidated cash flow statements

(Expressed in RMB)

		Years ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from operating activities						
(Loss)/profit before taxation		(63,018)	274,312	355,260	190,637	143,824
Adjustments for:						
Depreciation expenses	6(c)	68,907	66,269	67,689	33,136	39,135
Finance costs	6(a)	46,059	56,791	73,202	35,047	35,038
Interest income	5	(1,980)	(1,410)	(5,407)	(3,893)	(1,153)
Net (gain)/loss on disposal of property, plant and equipment	5	(1,073)	(19)	74	—	—
Amortisation of deferred income	22	(160)	(160)	(160)	(80)	(250)
Changes in working capital:						
(Increase)/decrease in inventories		(25,673)	(114,954)	(44,707)	(55,812)	34,614
Increase in trade and bills receivables		(102,983)	(315,688)	(75,064)	(159,763)	(208,553)
Decrease/(increase) in prepayments, deposits and other receivables		29,472	10,399	(31,210)	(29,408)	14,936
(Decrease)/increase in trade and bills payables		(28,804)	108,379	(10,834)	100,558	(69,128)
Increase/(decrease) in other payables and accruals		43,818	37,686	(63,658)	105,893	(23,495)
Net decrease/(increase) in restricted deposits	16(a)	16,235	(134,206)	(27,411)	53,515	122,877
Cash (used in)/generated from operations		(19,200)	(12,601)	237,774	269,830	87,845
Income tax paid	21(a)	—	—	(50,981)	(26,645)	(13,802)
Net cash (used in)/generated from operating activities		(19,200)	(12,601)	186,793	243,185	74,043

The accompanying notes form part of the Historical Financial Information.

		Years ended 31 December			Six months ended 30 June	
		2016	2017	2018	2018	2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Cash flows from investing activities						
Payments for acquisitions of property, plant and equipment		(32,116)	(78,658)	(506,045)	(142,774)	(221,019)
Proceeds from sale of property, plant and equipment		1,090	50	—	—	—
Interest received		1,980	1,410	1,559	728	1,153
Net cash used in investing activities		(29,046)	(77,198)	(504,486)	(142,046)	(219,866)
Cash flows from financing activities						
Proceeds from issuance of shares	23(b)	—	—	—	—	16,792
Proceeds from new interest-bearing bank borrowings	16(b)	564,139	1,221,258	1,782,480	835,840	1,281,423
Repayment of interest-bearing bank borrowings	16(b)	(562,184)	(923,215)	(1,234,280)	(741,650)	(882,480)
Loans received from a related party	16(b)	3,804	2,831	—	—	—
Loans repaid to a related party	16(b)	(3,804)	(15,500)	(831)	(831)	—
Loans granted to a related party	16(b)	—	—	(170,000)	(170,000)	—
Distributions paid	16(b)	—	—	(47,424)	(1,853)	—
Proceeds received from a group reorganisation	23(d)	—	—	27,902	—	—
Capital element of lease rentals paid	16(b)	—	—	—	—	(217)
Interest element of lease rentals paid	16(b)	—	—	—	—	(22)
Interest paid	16(b)	(45,955)	(54,467)	(71,263)	(35,682)	(55,252)
Net cash (used in)/generated from financing activities		(44,000)	230,907	286,584	(114,176)	360,244
Net (decrease)/increase in cash and cash equivalents		(92,246)	141,108	(31,109)	(13,037)	214,421
Effect of exchange rate changes on cash and cash equivalents		(393)	375	(362)	(76)	111
Cash and cash equivalents at the beginning of the year/period	16(a)	113,245	20,606	162,089	162,089	130,618
Cash and cash equivalents at the end of the year/period	16(a)	20,606	162,089	130,618	148,976	345,150

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 Basis of preparation and presentation of the Historical Financial 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 is an investment holding company and has not carried on any business since the date of its incorporation save for the group reorganisation mentioned below. The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacture and sale of oil country tubular goods ("OCTG"), other oil pipes and pipe billets.

Prior to the incorporation of the Company, the above mentioned principal activities were carried out by Dalipal Pipe Company (達力普石油專用管有限公司, "Dalipal Pipe") which was established as a limited liability company on 18 September 1998 in the People's Republic of China (the "PRC").

To rationalise the corporate structure in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Group underwent a reorganisation (the "Reorganisation"), as detailed in the section headed "History, Reorganisation and Corporate Structure".

Upon completion of the Reorganisation, the Company became the parent company of Dalipal Pipe and the holding company of the companies now comprising the Group. The Reorganisation only involved inserting the Company, Agile Rise Global Limited ("Agile Rise"), Dalipal Hong Kong Company Limited ("Dalipal HK"), Dalipal Shengjie Company Limited ("Dalipal Shengjie", formerly known as Dalipal Holdings Limited), Beauty Bright Group Limited ("Beauty Bright"), Complete Glory Group Limited ("Complete Glory"), Dalipal (Cangzhou) Industrial Company Limited (達力普(滄州)實業有限公司, "Dalipal Industrial"), Shengjie (Cangzhou) Oil Pipe Company Limited (盛捷(滄州)石油管有限公司, "Shengjie Pipe"), and Xuanxiang (Cangzhou) Petroleum Pipe Co., Ltd. (軒翔(滄州)石油管有限公司, "Xuanxiang Pipe"), which are newly formed entities with no substantive operations, as holding companies of Dalipal Pipe.

There were no changes in the economic substance of the ownership and the business of Dalipal Pipe before and after the Reorganisation and therefore the Historical Financial Information has been prepared and presented as a continuation of the consolidated financial statements of Dalipal Pipe with the assets and liabilities of Dalipal Pipe recognised and measured at their historical carrying amounts prior to the Reorganisation. Intra-group balances, transactions and unrealised gains/losses on intra-group transactions are eliminated in full in preparing the Historical Financial Information.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Track Record Period as set out in this report include the financial performance and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Track Record Period, or since their respective dates of incorporation or establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 30 June 2019 as set out in this report have been prepared to present the financial position of the companies now comprising the Group as of those dates as if the current group structure had been in existence as of the respective dates taking into account the respective dates of incorporation or establishment, where applicable.

As at the date of this report, no audited statutory financial statements have been prepared for the Company, Agile Rise, Dalipal HK, Dalipal Shengjie, Beauty Bright, Complete Glory, Dalipal Industrial, Shengjie Pipe and Xuanxiang Pipe, as they either have not carried on any business since their respective dates of incorporation/establishment or are investment holding companies or not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation/establishment. The financial statements of Dalipal Pipe were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC. The statutory financial statements of Dalipal (Hong Kong) Trading Company Limited ("Dalipal Trading") for the years ended 31 December 2016, 2017 and 2018 were prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, which are all private companies. The particulars of the subsidiaries are set out below:

Company name	Place and date of establishment/ incorporation	Particulars of registered/issued and paid-up capital	Proportion of ownership interest: The Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiaries	Principal activities	Name of statutory auditor
Dalipal Pipe 達力普石油專用管有限公司 *(Notes (i) and (iii))*	The PRC 18 September 1998	RMB155,526,000	99%	—	100%	Design, manufacture and sale of OCTG, other oil pipes and pipe billets	Ruihua Certified Public Accountants LLP 瑞華會計師事務所
Dalipal Trading	Hong Kong 4 February 2013	1,300,000 shares	99%	—	100%	Sale of OCTG	Au Yeung Huen Ying & Co.
Agile Rise	The British Virgin Islands (the "BVI") 26 April 2018	United States Dollar ("US$") 1, 1 share of US$1 each	100%	100%	—	Investment holding	N/A
Dalipal Shengjie	Hong Kong 17 September 2018	1 share	100%	—	100%	Investment holding	N/A
Dalipal HK	Hong Kong 19 September 2018	1 share	100%	—	100%	Investment holding	N/A
Beauty Bright	The BVI 19 September 2018	US$1, 1 share of US$1 each	100%	100%	—	Investment holding	N/A
Complete Glory	Hong Kong 19 October 2018	1 share	100%	—	100%	Investment holding	N/A
Dalipal Industrial 達力普(滄州)實業有限公司 *(Notes (ii) and (iii))*	The PRC 14 November 2018	*(Note (ii))*	100%	—	100%	Investment holding	N/A
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	99%	—	100%	Investment holding	N/A
Shengjie Pipe 盛捷(滄州)石油管有限公司 *(Notes (i) and (iii))*	The PRC 16 November 2018	RMB10,101,000	99%	—	99%	Investment holding	N/A

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. As at the date of this report, the registered capital of this entity is RMB10,000,000 and paid-up capital is RMBNil.

(iii) The English translation of the names are for identification only. The official names of these entities are in Chinese.

All companies now comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has 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"). Further details of the significant accounting policies adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRSs throughout the Track Record Period. The Group has not adopted any other new standards or interpretations that are not yet effective for the accounting period beginning on 1 January 2019. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2019 are set out in Note 27.

As at 30 June 2019, the Group had net current liabilities of RMB148,116,000. The Historical Financial Information has been prepared on a going concern basis, because the directors of the Company are of the opinion that based on a cash flow forecast of the Group for the twelve months ending 30 June 2020 prepared by the management and the Group's ability of financing new bank and other loans as needed, the Group would have adequate funds to meet its liabilities as and when they fall due at least twelve months from the end of the Track Record Period. Accordingly, the directors of the Company consider it is appropriate to prepare the Historical Financial Information on a going concern basis.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

The stub period corresponding financial information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

2 Significant accounting policies

(a) Basis of measurement

The Historical Financial Information is presented in RMB, rounded to the nearest thousand. The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of Historical Financial Information 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 Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

(c) 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 Historical Financial Information 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 Historical Financial Information. 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.

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 period between non-controlling interests and the equity shareholders of the Company.

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(g)).

(d) Property, plant and equipment

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

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(s)).

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.

(e) 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.

(f) 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.

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(d) and 2(g)).

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 Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

(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(q).

(g) 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.

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.

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(q) 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.

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

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

(h) 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 or in the rendering of services.

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.

(i) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(q)) 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(g) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(j)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(q)). 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(j)).

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(q)).

(j) 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(i)).

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

(k) 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. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(g).

(l) Trade and other payables

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

(m) 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 with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) 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 period 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) 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.

(o) Income tax

Income tax for the period 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 period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

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.

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.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company 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.

(q) 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.

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(g)).

— 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 income in the accounting period in which they are earned.

(r) Translation of foreign currencies

Foreign currency transactions during the period 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 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.

(s) 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.

(t) 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.

(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.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, 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 and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, 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.

3 Accounting judgement and estimates

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, based on the Group's past 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) Recognition of deferred tax assets

Deferred tax assets in respect of deductible temporary differences and unused tax losses are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the end of the reporting period. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involve a number of assumptions relating to the future operating performance of the Group and require a significant level of judgement exercised by the management. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised in future periods.

(c) Impairment of long-lived assets

If circumstances indicated that the carrying amount of a long-lived asset 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 long-lived assets as described in Note 2(g). 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, where applicable.

(d) 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.

4 Revenue and segment reporting

(a) Revenue

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

The amounts of each significant category of revenue recognised during the Track Record Period are as follows:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Sales of OCTG	594,849	1,345,154	1,709,755	709,197	877,062
Sales of other oil pipes	143,323	230,694	345,394	147,726	181,307
Sales of pipe billets	9,695	701,026	1,039,674	506,026	385,631
	747,867	2,276,874	3,094,823	1,362,949	1,444,000

During the Track Record Period, the Group's customers with whom transactions have exceeded 10% of the Group's revenue in the respective years or periods are set out below:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Customer A	268,088	494,990	479,256	116,552	233,427
Customer B	105,988	294,476	353,732	155,772	200,230
Customer F	*	*	319,080	167,861	163,590

* Transactions with this customer did not exceed 10% of the Group's revenue in the respective years or periods.

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

(i) Segment results

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. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred during the Track Record Period. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance during the Track Record Period is set out below.

	Year ended 31 December 2016			
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	594,849	143,323	9,695	747,867
Reportable segment gross profit	39,644	5,503	1,065	46,212

	Year ended 31 December 2017			
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,345,154	230,694	701,026	2,276,874
Reportable segment gross profit	269,263	39,513	132,898	441,674

	Year ended 31 December 2018			
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,709,755	345,394	1,039,674	3,094,823
Reportable segment gross profit	430,194	57,843	103,442	591,479

	Six months ended 30 June 2019			
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	877,062	181,307	385,631	1,444,000
Reportable segment gross profit	208,548	31,595	26,657	266,800

	Six months ended 30 June 2018 (unaudited)			
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	709,197	147,726	506,026	1,362,949
Reportable segment gross profit	198,613	33,497	60,349	292,459

(ii) 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:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Mainland China	667,550	2,186,639	2,831,305	1,308,158	1,336,726
Overseas:					
Oman	18,911	21,521	130,241	—	88,298
Others	61,406	68,714	133,277	54,791	18,976
	80,317	90,235	263,518	54,791	107,274
	747,867	2,276,874	3,094,823	1,362,949	1,444,000

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

5 Other income

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(unaudited)	
Government grants (including amortisation of deferred income, see Note 22)	10,428	9,535	1,304	186	1,398
Interest income	1,980	1,410	5,407	3,893	1,153
Rental income from operating leases	894	137	—	—	—
Net gain/(loss) on disposal of property, plant and equipment	1,073	19	(74)	—	—
Net foreign exchange gain/(loss)	1,347	(420)	(1,600)	178	(265)
Others	3,331	694	289	1,741	2,194
	19,053	11,375	5,326	5,998	4,480

6 (Loss)/profit before taxation

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

(a) Finance costs

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Interest on borrowings	45,871	52,235	70,302	31,616	49,821
Interest on lease liabilities	—	—	—	—	22
Others	188	4,556	4,864	3,431	2,673
	46,059	56,791	75,166	35,047	52,516
Less: interest expenses capitalised into construction in progress*	—	—	(1,964)	—	(17,478)
	46,059	56,791	73,202	35,047	35,038

* The borrowing costs have been capitalised at a rate of 6.18% and 5.75% per annum for the year ended 31 December 2018 and for the six months ended 30 June 2019, respectively.

(b) Staff costs#

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries, wages and other benefits	57,833	85,302	134,482	58,565	74,830
Contributions to defined contribution retirement plan	5,972	6,556	9,518	3,753	5,596
	63,805	91,858	144,000	62,318	80,426

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) 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 (other than Hong Kong), from the above mentioned retirement plan at their normal retirement age.

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

(c) Other items

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Depreciation expenses# *(Note 11)*					
— owned property, plant and equipment	64,026	61,046	61,765	30,250	35,808
— right-of-use assets	4,881	5,223	5,924	2,886	3,327
Impairment losses on trade and other receivables *(Notes 14(b) and 15)*	1,882	(120)	328	506	2,359
Auditors' remuneration					
— statutory audit services	264	264	264	264	310
— services in connection with the initial listing of the Company's shares	—	—	1,313	—	2,625
Research and development costs	14,412	18,422	23,279	10,995	12,432
Cost of inventories# *(Note 13(b))*	701,655	1,835,200	2,503,344	1,070,490	1,177,200

Cost of inventories include RMB96,012,000, RMB114,025,000, RMB147,942,000, RMB69,085,000 (unaudited) and RMB78,376,000 relating to staff costs, and depreciation expenses for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 (unaudited) and 2019, respectively, which amounts are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 Income tax in the consolidated statements of profit or loss and other comprehensive income

(a) Taxation in the consolidated statements of profit or loss and other comprehensive income represent:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Current taxation *(Note 21(a)):*					
— Provision for the year/period	—	2,874	48,862	28,821	24,249
— Over-provision in respect of prior periods *(Note 7(b)(v))*	—	—	—	—	(1,526)
	—	2,874	48,862	28,821	22,723
Deferred taxation *(Note 21(b)):*					
— Origination and reversal of temporary differences	(10,053)	39,229	5,200	(104)	(1,137)
— Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	—	—	—	—	5,206
	(10,053)	39,229	5,200	(104)	4,069
	(10,053)	42,103	54,062	28,717	26,792

(b) Reconciliations between tax expenses and accounting (losses)/profits at applicable tax rates:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
(Loss)/profit before taxation	(63,018)	274,312	355,260	190,637	143,824
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	(15,693)	68,462	88,766	47,647	36,721
Over-provision in respect of prior periods *(Note (v))*	—	—	—	—	(1,526)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	—	—	—	—	5,206
Tax effect of deductible temporary differences not recognised in prior periods	(1,096)	—	—	—	—
Tax effect of non-deductible expenses	506	936	862	127	1,700
Tax effect on preferential tax rate *(Note (iv))*	6,230	(27,295)	(35,566)	(19,057)	(15,309)
Actual tax expense	(10,053)	42,103	54,062	28,717	26,792

Notes:

(i) The Company is not subject to any income tax pursuant to the rules and regulations of the Cayman Islands.

(ii) The subsidiaries of the Group established in Hong Kong are subject to Hong Kong Profits Tax rate of 16.5% during the years ended 31 December 2016 and 2017. The two-tiered profits tax rates regime will be applicable from the year of assessment 2018/19 onwards. The profits tax rate for the first Hong Kong Dollars ("HK$") 2,000,000 of profits of corporations will be lowered to 8.25%, and profits above that amount will continue to be subject to the tax rate of 16.5%.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% during the Track Record Period.

(iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria. Dalipal Pipe was qualified as a HNTE on 26 November 2015, and the qualification was valid for the three calendar years ended 31 December 2015, 2016 and 2017. The HNTE qualification was renewed on 12 November 2018, and accordingly, Dalipal Pipe is entitled to the preferential tax rate of 15% for the three calendar years ended 31 December 2018, 2019 and 2020.

(v) The over-provision of current taxation for the six months ended 30 June 2019 was mainly attributable to the additional tax deductible allowance obtained by Dalipal Pipe which was calculated at 50% of the qualified research and development costs incurred for the year ended 31 December 2018.

8 Directors' emoluments

Details of emoluments of the directors of the Company during the Track Record Period are as follows:

	Year ended 31 December 2016				
	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Meng Fanyong	—	324	—	15	339
Ms. Xu Wenhong	—	232	—	—	232
Ms. Gan Shuya	—	151	—	15	166
Mr. Yin Zhixiang	—	345	—	56	401
	—	1,052	—	86	1,138

	Year ended 31 December 2017				
	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Meng Fanyong	—	602	—	16	618
Ms. Xu Wenhong	—	376	—	—	376
Mr. Meng Yuxiang (appointed on 14 June 2017)	—	113	—	—	113
Ms. Gan Shuya	—	296	—	16	312
Mr. Yin Zhixiang	—	510	—	—	510
	—	1,897	—	32	1,929

	Year ended 31 December 2018				
	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Meng Fanyong	—	959	—	16	975
Ms. Xu Wenhong	—	638	—	16	654
Mr. Meng Yuxiang	—	520	—	13	533
Ms. Gan Shuya	—	511	—	16	527
Mr. Yin Zhixiang	—	662	—	—	662
	—	3,290	—	61	3,351

	Six months ended 30 June 2019				
	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Meng Fanyong	—	443	—	7	450
Ms. Xu Wenhong	—	240	—	10	250
Mr. Meng Yuxiang	—	219	—	18	237
Ms. Gan Shuya	—	183	—	7	190
Mr. Yin Zhixiang	—	318	—	—	318
	—	1,403	—	42	1,445

	Six months ended 30 June 2018 (unaudited)				
	Directors' fees	Salaries, allowances and benefits-in-kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors					
Mr. Meng Fanyong	—	374	—	8	382
Ms. Xu Wenhong	—	201	—	—	201
Mr. Meng Yuxiang	—	149	—	—	149
Ms. Gan Shuya	—	158	—	8	166
Mr. Yin Zhixiang	—	255	—	—	255
	—	1,137	—	16	1,153

On 27 February 2019, Mr. Meng Fanyong, Ms. Xu Wenhong, Mr. Meng Yuxiang, Ms. Gan Shuya, and Mr. Yin Zhixiang were redesignated/appointed as executive directors of the Company. Mr. Zhang Hongyao was appointed as director of the Company on 27 February 2019 and was redesignated as a non-executive director of the Company on 19 June 2019. On 19 June 2019, Mr. Cheng Haitao, Mr. Guo Kaiqi and Mr. Wong Jovi Chi Wing were appointed as independent non-executive directors of the Company.

During the Track Record Period, 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. No remuneration was paid to the independent non-executive directors during the Track Record Period.

9 Individuals with highest emoluments

During the Track Record Period, of the five individuals with the highest emoluments, three, two, three, three (unaudited) and three are directors for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2018 (unaudited) and 2019, respectively, whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals during the Track Record Period are as follows:

	Years ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other emoluments	587	1,662	1,715	611	689
Retirement scheme contributions	27	23	69	28	42
	614	1,685	1,784	639	731

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 band:

	Years ended 31 December			**Six months ended 30 June**	
	2016	**2017**	**2018**	**2018**	**2019**
	Number of individuals	*Number of individuals*	*Number of individuals*	*Number of individuals* (unaudited)	*Number of individuals*
HK$Nil to HK$1,000,000	2	3	2	2	2

During the Track Record Period, 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.

10 (Loss)/earnings per share

No (loss)/earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results for the Track Record Period using the basis of preparation as disclosed in Note 1 above.

11 Property, plant and equipment

(a) Reconciliations of carrying amounts

	Plant and buildings	Machinery and equipment	Vehicles and other equipment	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:						
At 1 January 2016	602,873	673,964	11,322	31,817	225,586	1,545,562
Additions	7,771	630	1,146	7,621	22,160	39,328
Transfer in/(out)	15,200	1,468	20	(16,688)	—	—
Disposals	—	(33)	(118)	—	—	(151)
At 31 December 2016	625,844	676,029	12,370	22,750	247,746	1,584,739
Additions	411	2,411	958	76,490	—	80,270
Transfer in/(out)	908	3,941	—	(4,849)	—	—
Disposals	—	—	(620)	—	—	(620)
At 31 December 2017	627,163	682,381	12,708	94,391	247,746	1,664,389
Additions	23,538	8,624	5,048	416,085	30,407	483,702
Transfer in/(out)	20,957	5,071	—	(26,028)	—	—
Disposals	(17)	(407)	(806)	—	—	(1,230)
At 31 December 2018	671,641	695,669	16,950	484,448	278,153	2,146,861
Additions	—	2,164	1,851	263,303	1,735	269,053
Transfer in/(out)	179,179	137,108	373	(316,660)	—	—
Disposals	—	(366)	(426)	—	—	(792)
At 30 June 2019	850,820	834,575	18,748	431,091	279,888	2,415,122
Accumulated depreciation:						
At 1 January 2016	(107,352)	(243,784)	(9,664)	—	(24,025)	(384,825)
Charge for the year	(19,558)	(43,754)	(714)	—	(4,881)	(68,907)
Written back on disposals	—	28	106	—	—	134
At 31 December 2016	(126,910)	(287,510)	(10,272)	—	(28,906)	(453,598)
Charge for the year	(19,910)	(40,568)	(568)	—	(5,223)	(66,269)
Written back on disposals	—	—	589	—	—	589
At 31 December 2017	(146,820)	(328,078)	(10,251)	—	(34,129)	(519,278)
Charge for the year	(19,767)	(41,237)	(761)	—	(5,924)	(67,689)
Written back on disposals	4	346	806	—	—	1,156
At 31 December 2018	(166,583)	(368,969)	(10,206)	—	(40,053)	(585,811)
Charge for the period	(11,672)	(22,877)	(1,259)	—	(3,327)	(39,135)
Written back on disposals	—	366	426	—	—	792
At 30 June 2019	(178,255)	(391,480)	(11,039)	—	(43,380)	(624,154)

	Plant and buildings	Machinery and equipment	Vehicles and other equipment	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount:						
At 31 December 2016	498,934	388,519	2,098	22,750	218,840	1,131,141
At 31 December 2017	480,343	354,303	2,457	94,391	213,617	1,145,111
At 31 December 2018	505,058	326,700	6,744	484,448	238,100	1,561,050
At 30 June 2019	672,565	443,095	7,709	431,091	236,508	1,790,968

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 2016, 2017 and 2018 and 30 June 2019, property, plant and equipment of the Group with carrying amounts of RMB560,720,000, RMB521,624,000, RMB407,555,000 and RMB1,156,656,000, respectively, have been pledged as collateral for the Group's interest-bearing bank borrowings (see Note 19).

(iii) At 31 December 2016, 2017 and 2018 and 30 June 2019, ownership certificates of certain properties with carrying amounts of RMB243,168,000, RMB234,108,000, RMB40,421,000 and RMB191,402,000, respectively, are yet to be obtained. As at the date of this report, the Group has obtained all the ownership certificates of properties, except for building ownership certificate of an office as detailed in the section headed "Business — Lack of building ownership certificate". As advised by PRC legal counsel of the Company, the directors of the Company is of the opinion that the office is lawfully occupied by the Group.

(iv) In February 2019, the Group received a notification from local government, requiring the Group to relocate part of its production facilities due to the zone development requirements of the area. In September 2019, the Group entered into a land resumption compensation agreement for the first parcel of land with local government, and pursuant to the agreement, the local government will compensate the Group in the amount of approximately RMB205,600,000 for the relocation. The carrying amounts of the related property, plant and equipment of the first parcel of land were approximately RMB24,000,000 as at 30 June 2019. Up to the date of this report, the Group has substantially completed the relocation in connection with the first parcel of land, and the management of the Group is still in process of developing a detail relocation plan for the remaining parcels of land.

(b) Right-of-use assets

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

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Properties leased for own use, carried at depreciated cost:				
— Land use rights	218,840	213,617	238,100	235,062
— Office premises	—	—	—	1,446
	218,840	213,617	238,100	236,508

The analyses of expense items in relation to leases recognised in profit or loss are as follows:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Depreciation charge of right-of-use assets by class of underlying assets *(Note 6(c))*:					
— Land use rights	4,881	5,223	5,924	2,886	3,038
— Office premises	—	—	—	—	289
	4,881	5,223	5,924	2,886	3,327

Further details on lease liabilities are set out in Note 20.

12 Investment in a subsidiary

The Company

	At 31 December	At 30 June
	2018	2019
	RMB'000	*RMB'000*
Investment in unlisted shares, at cost	*	*

* Amount less than RMB1,000.

Further details of the subsidiaries of the Group are set out in Note 1.

13 Inventories

(a) Inventories in the consolidated statements of financial position comprise:

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	66,616	127,017	94,699	114,215
Work in progress	101,515	116,364	149,104	137,071
Finished goods	96,512	132,742	176,961	134,698
	264,643	376,123	420,764	385,984
Less: write-down of inventories	(4,634)	(1,160)	(1,094)	(928)
	260,009	374,963	419,670	385,056

(b) The analyses of the amounts of inventories recognised as expenses and included in the consolidated statements of profit or loss are as follows:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Carrying amounts of inventories sold	712,215	1,838,674	2,503,410	1,070,305	1,177,366
(Reversal of write-down)/ write-down of inventories	(10,560)	(3,474)	(66)	185	(166)
	701,655	1,835,200	2,503,344	1,070,490	1,177,200

14 Trade and bills receivables

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	113,664	252,404	243,609	471,148
Less: loss allowance *(Note 14(b))*	(3,197)	(3,123)	(3,511)	(5,900)
	110,467	249,281	240,098	465,248
Bills receivables	132,426	309,300	393,547	376,950
	242,893	558,581	633,645	842,198

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

The balances of bills receivables represent bank and trade acceptance notes received from customers with maturity dates of less than six months.

(a) Ageing analyses

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

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 month	61,868	218,722	134,864	270,380
1 to 3 months	23,245	21,401	97,836	144,202
3 to 6 months	21,825	6,107	5,323	44,397
Over 6 months	3,529	3,051	2,075	6,269
	110,467	249,281	240,098	465,248

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 during the Track Record Period are as follows:

	Years ended 31 December			Six months ended 30 June	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
At 1 January	1,326	3,197	3,123	3,123	3,511
Credit losses recognised/(reversal of credit losses)	1,871	(74)	388	596	2,389
At 31 December/30 June	3,197	3,123	3,511	3,719	5,900

(c) At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group has discounted certain of the bank acceptance notes it received at banks, and endorsed certain of the bank acceptance notes it received 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 each of the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are of good credit quality and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 31 December 2016, 2017 and 2018 and 30 June 2019, 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 RMB40,440,000, RMB176,913,000, RMB117,983,000 and RMB93,100,000, respectively.

Bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB3,150,000, RMB35,151,000, RMB20,475,000 and RMB5,659,000 at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively, which were not derecognised as the Group remains to have significant exposure to the credit risk of these bills receivables. The carrying amounts of the associated bank loans and trade payables amounted to RMB3,150,000, RMB35,151,000, RMB20,475,000 and RMB5,659,000 at 31 December 2016, 2017 and 2018 and 30 June 2019, respectively.

15 Prepayments, deposits and other receivables

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments for purchase of raw materials	11,185	31,419	31,064	26,112
Prepayments for transportation and other miscellaneous expenses	10,775	14,582	8,122	11,267
Prepayments for costs incurred in connection with the listing of the Company's shares *(Note (i))*	—	—	2,158	5,038
VAT recoverable	39,722	10,429	65,043	28,633
Others	2,520	6,912	4,231	5,617
	64,202	63,342	110,618	76,667
Less: loss allowance	(375)	(329)	(269)	(239)
	63,827	63,013	110,349	76,428

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

Note:

(i) The balance will be charged to profit or loss or transferred to the share premium account within equity upon the listing of the Company's shares on the Stock Exchange.

The movements in the loss allowance account during the Track Record Period are as follows:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
At 1 January	364	375	329	329	269
Credit losses recognised/(reversal of credit losses)	11	(46)	(60)	(90)	(30)
At 31 December/30 June	375	329	269	239	239

16 Cash at bank and on hand

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

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank	119,503	395,137	391,168	482,770
Cash on hand	75	130	39	92
Cash at bank and on hand included in the consolidated statements of financial position	119,578	395,267	391,207	482,862
Less: restricted deposits *(Note (i))*	(98,972)	(233,178)	(260,589)	(137,712)
Cash and cash equivalents included in the consolidated cash flow statements	20,606	162,089	130,618	345,150

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

Note:

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

(b) Reconciliations of liabilities arising from financing activities

The tables below detail changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are 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.

	Liabilities					Assets	
	Interest-bearing bank borrowings	Interest payable	Loans from a related party	Distributions payable	Lease liabilities	Loans to/(from) a related party	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 19)	*(Note 18)*	*(Note 26(c))*	*(Note 18)*	*(Note 20)*	*(Note 26(c))*	
At 1 January 2016	806,812	1,884	13,500	—	—	—	822,196
Changes from financing cash flows:							
Proceeds from new interest-bearing bank borrowings	564,139	—	—	—	—	—	564,139
Repayment of interest-bearing bank borrowings	(562,184)	—	—	—	—	—	(562,184)
Loans received from a related party	—	—	3,804	—	—	—	3,804
Loans repaid to a related party	—	—	(3,804)	—	—	—	(3,804)
Interest paid	—	(45,955)	—	—	—	—	(45,955)
Total changes from financing cash flows	1,955	(45,955)	—	—	—	—	(44,000)

	Liabilities					Assets	
	Interest-bearing bank borrowings	Interest payable	Loans from a related party	Distributions payable	Lease liabilities	Loans to/(from) a related party	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 19)	*(Note 18)*	*(Note 26(c))*	*(Note 18)*	*(Note 20)*	*(Note 26(c))*	
Other changes:							
Interest expenses *(Note 6(a))*	—	46,059	—	—	—	—	46,059
At 31 December 2016	808,767	1,988	13,500	—	—	—	824,255
At 1 January 2017	808,767	1,988	13,500	—	—	—	824,255
Changes from financing cash flows:							
Proceeds from new interest-bearing bank borrowings	1,221,258	—	—	—	—	—	1,221,258
Repayment of interest-bearing bank borrowings	(923,215)	—	—	—	—	—	(923,215)
Loans received from a related party	—	—	2,831	—	—	—	2,831
Loans repaid to a related party	—	—	(15,500)	—	—	—	(15,500)
Interest paid	—	(54,467)	—	—	—	—	(54,467)
Total changes from financing cash flows	298,043	(54,467)	(12,669)	—	—	—	230,907
Other changes:							
Interest expenses *(Note 6(a))*	—	56,791	—	—	—	—	56,791
At 31 December 2017	1,106,810	4,312	831	—	—	—	1,111,953
At 1 January 2018	1,106,810	4,312	831	—	—	—	1,111,953
Changes from financing cash flows:							
Proceeds from new interest-bearing bank borrowings	1,782,480	—	—	—	—	—	1,782,480
Repayment of interest-bearing bank borrowings	(1,234,280)	—	—	—	—	—	(1,234,280)
Loans granted to a related party	—	—	—	—	—	(170,000)	(170,000)
Loans repaid to a related party	—	—	(831)	—	—	—	(831)
Distributions paid	—	—	—	(47,424)	—	—	(47,424)
Interest paid	—	(71,263)	—	—	—	—	(71,263)
Total changes from financing cash flows	548,200	(71,263)	(831)	(47,424)	—	(170,000)	258,682
Other changes:							
Distributions *(Note 23(e))*	—	—	—	453,033	—	—	453,033
Non-cash transaction *(Note (i))*	—	—	—	(173,848)	—	173,848	—
Interest income	—	—	—	—	—	(3,848)	(3,848)
Interest expenses *(Note 6(a))*	—	73,202	—	—	—	—	73,202
Capitalised borrowing costs *(Note 6(a))*	—	1,964	—	—	—	—	1,964
Total other changes	—	75,166	—	279,185	—	170,000	524,351
At 31 December 2018	1,655,010	8,215	—	231,761	—	—	1,894,986

	Liabilities					Assets	
	Interest-bearing bank borrowings	Interest payable	Loans from a related party	Distributions payable	Lease liabilities	Loans to/(from) a related party	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 19)	*(Note 18)*	*(Note 26(c))*	*(Note 18)*	*(Note 20)*	*(Note 26(c))*	
At 1 January 2019	1,655,010	8,215	—	231,761	—	—	1,894,986
Changes from financing cash flows:							
Proceeds from new interest-bearing bank borrowings	1,281,423	—	—	—	—	—	1,281,423
Repayment of interest-bearing bank borrowings	(882,480)	—	—	—	—	—	(882,480)
Capital element of lease rentals paid	—	—	—	—	(217)	—	(217)
Interest element of lease rentals paid	—	—	—	—	(22)	—	(22)
Interest paid	—	(55,252)	—	—	—	—	(55,252)
Total changes from financing cash flows	398,943	(55,252)	—	—	(239)	—	343,452
Other changes:							
Capitalisation of new leases	—	—	—	—	1,735	—	1,735
Interest expenses *(Note 6(a))*	—	35,016	—	—	22	—	35,038
Capitalised borrowing costs *(Note 6(a))*	—	17,478	—	—	—	—	17,478
Total other changes	—	52,494	—	—	1,757	—	54,251
At 30 June 2019	2,053,953	5,457	—	231,761	1,518	—	2,292,689
At 1 January 2018	1,106,810	4,312	831	—	—	—	1,111,953
Changes from financing cash flows:							
Proceeds from new interest-bearing bank borrowings (unaudited)	835,840	—	—	—	—	—	835,840
Repayment of interest-bearing bank borrowings (unaudited)	(741,650)	—	—	—	—	—	(741,650)
Loans granted to a related party (unaudited)	—	—	—	—	—	(170,000)	(170,000)
Loans repaid to a related party (unaudited)	—	—	(831)	—	—	—	(831)
Distributions paid (unaudited)	—	—	—	(1,853)	—	—	(1,853)
Interest paid (unaudited)	—	(35,682)	—	—	—	—	(35,682)
Total changes from financing cash flows (unaudited)	94,190	(35,682)	(831)	(1,853)	—	(170,000)	(114,176)
Other changes:							
Distributions *(Note 23(e))* (unaudited)	—	—	—	52,854	—	—	52,854
Non-cash transaction *(Note (i))* (unaudited)	—	—	—	(48,000)	—	48,000	—
Interest income (unaudited)	—	—	—	—	—	(3,165)	(3,165)
Interest expenses *(Note 6(a))* (unaudited)	—	35,047	—	—	—	—	35,047
Total other changes (unaudited)	—	35,047	—	4,854	—	44,835	84,736
At 30 June 2018 (unaudited)	1,201,000	3,677	—	3,001	—	(125,165)	1,082,513

(i) Non-cash transaction

Loans to a related party and related interest receivable were set-off by profit distributions made by a subsidiary of the Group (see Note 23(e)) during the year ended 31 December 2018.

17 Trade and bills payables

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	47,163	206,375	272,947	326,670
Bills payables	251,090	200,257	122,851	—
	298,253	406,632	395,798	326,670

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

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

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 month	19,676	156,711	153,074	274,576
1 to 3 months	59,347	51,810	111,070	7,171
3 to 6 months	197,403	99,176	69,476	35,547
Over 6 months	21,827	98,935	62,178	9,376
	298,253	406,632	395,798	326,670

18 Other payables and accruals

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Payables for other taxes	3,755	16,495	14,579	4,027
Payables for staff related costs	895	767	4,671	1,874
Interest payable	1,988	4,312	8,215	5,457
Payables for transportation and utilities expenses	7,238	13,502	11,519	10,731
Payables for costs incurred in connection with the listing of the Company's shares	—	—	1,908	4,682
Distributions payable	—	—	231,761	231,761
Other payables	8,924	1,783	1,290	2,620
Financial liabilities measured at amortised cost	22,800	36,859	273,943	261,152
Receipts in advance	65,479	103,002	29,296	15,581
	88,279	139,861	303,239	276,733

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

19 Interest-bearing bank borrowings

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

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
— Secured by the Group's property, plant and equipment and guaranteed by a related party#	56,310	81,310	56,310	—
— Secured by the Group's property, plant and equipment	70,000	67,800	118,000	319,110
— Secured by the Group's property, plant and equipment and guaranteed and secured by assets of related parties*	—	—	100,000	—
— Secured by the Group's property, plant and equipment and restricted deposits	—	—	—	150,000
— Secured by the Group's trade and bills receivables and restricted deposits	36,617	284,610	458,880	502,623
— Secured by the Group's trade and bills receivables, and guaranteed by a related party#	73,340	73,590	73,600	—
— Guaranteed by a related party#	57,000	85,000	81,200	—
— Guaranteed by a supplier	42,500	42,500	—	—
— Unguaranteed and unsecured	2,000	4,000	3,500	81,200
	337,767	638,810	891,490	1,052,933
Add: current portion of long-term bank loans *(Note 19(b))*	155,000	102,000	453,520	269,520
	492,767	740,810	1,345,010	1,322,453

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

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:				
— Secured by the Group's property, plant and equipment and guaranteed by a related party#	—	73,000	223,000	—
— Secured by the Group's property, plant and equipment and guaranteed and secured by assets of related parties*	—	—	100,000	—
— Secured by the Group's property, plant and equipment	411,000	330,880	226,400	769,900
— Secured by the Group's inventories and guaranteed by a related party#	—	—	150,000	—
— Secured by the Group's inventories	—	—	—	149,000
— Guaranteed by a related party#	60,000	64,120	64,120	—
— Unguaranteed and unsecured	—	—	—	82,120
	471,000	468,000	763,520	1,001,020
Less: current portion of long-term bank loans *(Note 19(a))*	(155,000)	(102,000)	(453,520)	(269,520)
	316,000	366,000	310,000	731,500

* In addition to the pledge of the Group's property, plant and equipment as detailed in Note 19(d), these bank loans are also collateralised by Mr. Meng Fanyong's personal properties and Mr. Meng Fanyong's equity interests in Dalipal Group Co., Ltd. (達力普集團有限公司, "Dalipal Group"), and guaranteed by Dalipal Group and Mr. Meng Fanyong and/or his spouse. As of 30 June 2019, the security and guarantees previously provided by Mr. Meng Fanyong and/or his spouse and Dalipal Group had been released.

As of 30 June 2019, the guarantees previously provided by Dalipal Group had been released.

(c) The Group's long-term bank loans are repayable as follows:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	155,000	102,000	453,520	269,520
After 1 year but within 2 years	102,000	356,000	10,000	40,000
After 2 years but within 5 years	214,000	10,000	300,000	691,500
	471,000	468,000	763,520	1,001,020

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

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment *(Note 11(a))*	560,720	521,624	407,555	1,156,656
Inventories	—	—	250,150	250,150
Trade and bills receivables	141,950	310,441	423,581	458,905
Cash at bank and on hand — restricted deposits	—	84,604	144,802	111,386
	702,670	916,669	1,226,088	1,977,097

(e) At 31 December 2016, 2017 and 2018 and 30 June 2019, the Group's banking facilities amounted to RMB807,427,000, RMB1,103,220,000, RMB1,751,910,000 and RMB2,054,493,000 were utilised to the extent of RMB806,767,000, RMB1,102,810,000, RMB1,651,510,000 and RMB2,053,953,000, respectively.

(f) 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 2016, 2017 and 2018 and 30 June 2019, none of the covenants relating to the interest-bearing bank borrowings had been breached.

20 Lease liabilities

The following tables show the remaining contractual maturities of the Group's lease liabilities as at the end of each reporting period:

	At 31 December						At 30 June	
	2016		2017		2018		2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	—	—	—	—	—	—	895	953
After 1 year but within 2 years	—	—	—	—	—	—	623	635
	—	—	—	—	—	—	1,518	1,588
Less: total future interest expense		—		—		—		(70)
Present value of lease liabilities		—		—		—		1,518

21 Income tax in the consolidated statements of financial position

(a) Current taxation in the consolidated statements of financial position represent:

	Years ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net balance of income tax (recoverable)/payable at 1 January	(1,767)	(1,767)	1,107	(1,012)
Provision for the year/period *(Note 7(a))*	—	2,874	48,862	22,723
Income tax paid	—	—	(50,981)	(13,802)
Net balance of income tax (recoverable)/payable at 31 December/30 June	(1,767)	1,107	(1,012)	7,909
Represented by:				
Income tax recoverable	(1,767)	(2)	(1,012)	—
Income tax payable	—	1,109	—	7,909
	(1,767)	1,107	(1,012)	7,909

(b) Deferred tax assets and liabilities recognised

(i) Movement of each component of deferred tax assets and liabilities

The deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements throughout the Track Record Period are as follows:

	Assets						Liabilities			
Deferred tax arising from:	Unused tax losses	Credit losses on trade and other receivables	Write-down of inventories	Accruals	Deferred income	Sub-total	Retained profits to be distributed	Accelerated tax allowance for depreciation expenses	Sub-total	Net
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	30,045	253	2,279	1,961	—	34,538	—	—	—	34,538
Credited/(charged) to the consolidated statement of profit or loss *(Note 7(a))*	11,354	283	(1,584)	—	—	10,053	—	—	—	10,053
At 31 December 2016 and 1 January 2017	41,399	536	695	1,961	—	44,591	—	—	—	44,591
Charged to the consolidated statement of profit or loss *(Note 7(a))*	(36,729)	(18)	(521)	(1,961)	—	(39,229)	—	—	—	(39,229)
At 31 December 2017 and 1 January 2018	4,670	518	174	—	—	5,362	—	—	—	5,362
(Charged)/credited to the consolidated statement of profit or loss *(Note 7(a))*	(4,670)	49	(10)	—	—	(4,631)	—	(569)	(569)	(5,200)
At 31 December 2018 and 1 January 2019	—	567	164	—	—	731	—	(569)	(569)	162
Credited/(charged) to the consolidated statement of profit or loss *(Note 7(a))*	—	354	(25)	—	1,505	1,834	(5,206)	(697)	(5,903)	(4,069)
At 30 June 2019	—	921	139	—	1,505	2,565	(5,206)	(1,266)	(6,472)	(3,907)

(ii) Reconciliations to the consolidated statements of financial position

	At 31 December			At 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net deferred tax asset recognised in the consolidated statements of financial position	44,591	5,362	162	1,299
Net deferred tax liability recognised in the consolidated statements of financial position	—	—	—	(5,206)
	44,591	5,362	162	(3,907)

(c) Deferred tax liabilities not recognised

At 31 December 2016, 2017 and 2018 and 30 June 2019, taxable temporary differences relating to the retained profits of the Group's subsidiaries established in the PRC (excluding Hong Kong) amounted to RMBNil, RMBNil, RMB264,704,000 and RMB341,023,000, respectively, where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were 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

	Years ended 31 December			Six months ended 30 June
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January	986	826	666	506
Additions	—	—	—	10,200
Credited to the consolidated statements of profit or loss	(160)	(160)	(160)	(250)
At 31 December/30 June	826	666	506	10,456

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.

23 Capital, reserves and distributions/dividends

(a) Movements in components of equity

The reconciliations between the opening and closing balances of each component of the Group's consolidated equity during the Track Record Period are set out in the consolidated statements of changes in equity.

Details of the changes of the Company's individual components of equity are set out below:

	Share capital	Share premium	Retained profits	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	Note 23(b)	*Note 23(c)*		
Balance at 28 August 2018 (date of incorporation)	—	—	—	—
Changes in equity for the period from 28 August 2018 (date of incorporation) to 31 December 2018:				
Issuance of shares *(Note 23(b))*	85	—	—	85
Balance at 31 December 2018 and 1 January 2019	85	—	—	85
Changes in equity for the six months ended 30 June 2019:				
Profit and total comprehensive income for the period	—	—	268	268
Issuance of shares *(Note 23(b))*	3	22,632	—	22,635
Balance at 30 June 2019	88	22,632	268	22,988

(b) Share capital

The share capital as at 31 December 2018 and 30 June 2019 represented the issued capital of the Company, comprising 970,000 and 1,000,000 shares at HK$0.1 each, respectively.

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. Upon incorporation, one share was issued at par by the Company to a subscriber which was transferred on the same day to Rosy Astral Limited at par value. On 22 September 2018, an aggregate of 969,999 shares were allotted and issued, credited as fully-paid, at par value by the Company as to 588,627 shares to Rosy Astral Limited, 348,185 shares to Polaris Swift Limited and 33,187 shares to Glorious Year Limited.

On 9 January 2019, an investor agreed to subscribe for 30,000 shares at a consideration of RMB22,635,000. The consideration was satisfied by cash of RMB16,792,000 and the assumption of a shareholder's loan of RMB5,843,000 upon the acquisition of Beauty Bright from this investor as part of the Reorganisation. At the same time, this shareholder's loan was assigned to the Company.

(c) 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.

(d) Other reserve

The other reserve at 1 January 2016, 31 December 2016 and 2017 mainly comprised the paid-in capital and statutory reserve of a PRC subsidiary of the Group, Dalipal Pipe.

Upon the completion of the Reorganisation, the Company became the holding company of the companies now comprising the Group and accordingly, the paid-in capital of Dalipal Pipe was eliminated when preparing the Historical Financial Information. Hence, the other reserve at 31 December 2018 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.

(e) Distributions/dividends

During the Track Record Period, the Group made the following distributions to its equity holders:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Distributions	—	—	453,033	52,854	—

At Dalipal Pipe's general meeting of equity holders held in April 2018 and August 2018, the equity holders have approved the declaration of annual and special cash distributions of RMB52,854,000 and RMB400,179,000, respectively.

The directors of the Company consider that the distributions made during the Track Record Period are not indicative of the future dividend policy of the Group. The Company did not declare any dividends during the Track Record Period.

(f) Capital management

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

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

24 Financial risk management and fair values of financial instruments

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

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

(a) Credit risk

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

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2016, 2017 and 2018 and 30 June 2019, 25.3%, 63.8%, 37.8% and 25.4% of the total trade receivables, respectively, were due from the Group's largest trade debtor, and 79.3%, 94.5%, 79.7% and 75.0% of the trade receivables, respectively, were due from the Group's five largest trade debtors.

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 due within 90 days from the date of billings. Normally, the Group does not obtain collateral from customers.

The following tables provide information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2016, 2017 and 2018 and 30 June 2019:

	At 31 December 2016		
	Expected loss rate	**Gross carrying amount**	**Loss allowances**
Current (not past due)	0.1%	73,483	(73)
Less than 3 months past due	2.0%	22,078	(442)
3 to 6 months past due	3.0%	12,260	(368)
6 to 12 months past due	7.0%	701	(49)
Over 12 months past due	44.0%	5,142	(2,265)
		113,664	(3,197)

	At 31 December 2017		
	Expected loss rate	**Gross carrying amount**	**Loss allowances**
Current (not past due)	0.6%	240,047	(1,464)
Less than 3 months past due	2.0%	4,476	(90)
3 to 6 months past due	3.0%	3,362	(101)
6 to 12 months past due	7.0%	1,411	(99)
Over 12 months past due	44.0%	3,108	(1,369)
		252,404	(3,123)

	At 31 December 2018		
	Expected loss rate	Gross carrying amount	Loss allowances
Current (not past due)	0.6%	207,607	(1,232)
Less than 3 months past due	2.0%	32,293	(645)
3 to 6 months past due	3.0%	—	—
6 to 12 months past due	7.0%	—	—
Over 12 months past due	44.0%	3,709	(1,634)
		243,609	(3,511)

	At 30 June 2019		
	Expected loss rate	Gross carrying amount	Loss allowances
Current (not past due)	0.2%	376,382	(836)
Less than 3 months past due	2.0%	91,533	(1,831)
3 to 6 months past due	3.0%	—	—
6 to 12 months past due	7.0%	—	—
Over 12 months past due	100.0%	3,233	(3,233)
		471,148	(5,900)

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.

As there was no significant changes in the Group's customer base, credit risk of customers, credit policy, economic conditions and the Group's view of economic conditions over the expected lives of the receivables during the years ended 31 December 2017 and 2018, hence the Group applied the same credit loss rates in both 2017 and 2018.

(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 tables show the remaining contractual maturities at 31 December 2016, 2017 and 2018 and 30 June 2019 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 each reporting period) and the earliest dates the Group can be required to pay:

	At 31 December 2016				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	298,253	—	—	298,253	298,253
Other payables and accruals measured at amortised cost	22,800	—	—	22,800	22,800
Loans from a related party	14,281	—	—	14,281	13,500
Interest-bearing bank borrowings	520,129	115,628	225,511	861,268	808,767
	855,463	115,628	225,511	1,196,602	1,143,320

	At 31 December 2017				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	406,632	—	—	406,632	406,632
Other payables and accruals measured at amortised cost	36,859	—	—	36,859	36,859
Loans from a related party	831	—	—	831	831
Interest-bearing bank borrowings	771,551	370,342	10,461	1,152,354	1,106,810
	1,215,873	370,342	10,461	1,596,676	1,551,132

	At 31 December 2018				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	395,798	—	—	395,798	395,798
Other payables and accruals measured at amortised cost	273,943	—	—	273,943	273,943
Interest-bearing bank borrowings	1,395,154	28,984	316,419	1,740,557	1,655,010
	2,064,895	28,984	316,419	2,410,298	2,324,751

	At 30 June 2019				
	Contractual undiscounted cash flow				
	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years but within 5 years	Total	Carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	326,670	—	—	326,670	326,670
Other payables and accruals measured at amortised cost	261,152	—	—	261,152	261,152
Interest-bearing bank borrowings	1,387,697	81,758	724,933	2,194,388	2,053,953
Lease liabilities	953	635	—	1,588	1,518
	1,976,472	82,393	724,933	2,783,798	2,643,293

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing bank 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 tables detail the interest rate profile of the Group's total borrowings at the end of each reporting period:

	At 31 December						At 30 June	
	2016		2017		2018		2019	
	Effective interest rate		Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*
Fixed rate borrowings:								
Bank loans	4.14%–6.55%	517,767	4.35%–6.55%	817,810	4.18%–6.55%	1,367,010	3.31%–6.55%	1,701,953
Variable rate borrowings:								
Bank loans	4.28%–6.04%	291,000	4.28%–4.99%	289,000	4.28%–5.66%	288,000	4.28%–6.04%	352,000
Loans from a related party	5.44%	13,500	5.44%	831	—	—	—	—
		304,500		289,831		288,000		352,000
		822,267		1,107,641		1,655,010		2,053,953
Fixed rate borrowings as a percentage of total borrowings		63%		74%		83%		83%

(ii) Sensitivity analyses

At 31 December 2016, 2017 and 2018 and 30 June 2019, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's loss/profit after tax and decreased/increased the Group's retained profits by approximately RMB2,588,000, RMB2,464,000, RMB2,448,000 and RMB2,992,000, respectively.

The sensitivity analyses above indicate the instantaneous change in the Group's loss/profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the end of each reporting period. The impact is estimated as an annualised impact on interest exposure of such a change in interest rates. The sensitivity analyses are performed on the same basis during the Track Record Period.

(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 tables detail the Group's exposure at the end of each 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 rates at the respective year/period end dates.

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	US$	**US$**	**US$**	**US$**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash at bank and on hand	6,491	6,055	8,740	8,907
Trade and bills receivables	17,493	5,757	26,265	12,262
Other payables and accruals	(5,383)	(237)	(634)	(296)
	18,601	11,575	34,371	20,873

At 31 December 2016, 2017 and 2018 and 30 June 2019, an increase/decrease of 5% in US$ with all other variables held constant would have decreased/increased the Group's loss/profit after tax and increased/decreased the Group's retained profits by approximately RMB791,000, RMB492,000, RMB1,461,000 and RMB887,000, respectively.

(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 2016, 2017 and 2018 and 30 June 2019.

25 Commitments

Capital commitments outstanding at the end of each reporting period not provided for in the Historical Financial Information were as follows:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commitments in respect of property, plant and equipment:				
— Contracted for	3,145	703,295	356,392	240,345

26 Material related party transactions and balances

(a) Names and relationships of the related parties that had material transactions with the Group during the Track Record Period and balances with the Group at the end of each reporting period

Name of related party	Relationship
Dalipal Group (達力普集團有限公司) #	A company controlled by the controlling shareholders
Mr. Meng Fanyong (孟凡勇)	One of the controlling shareholders
Ms. Luo Yumei (羅玉梅)	A relative of the controlling shareholders
Mr. Meng Yuxiang (孟宇翔)	One of the controlling shareholders

The official names of this entity is in Chinese. The English translation of the name is for identification purpose only.

(b) Transactions with related parties during the Track Record Period:

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Loans received from Dalipal Group *(Note (i))*	3,804	2,831	—	—	—
Loans repaid to Dalipal Group *(Note (i))*	3,804	15,500	831	831	—
Loans granted to Dalipal Group *(Note (ii))*	—	—	170,000	170,000	—
Loan repayments from Dalipal Group *(Note (ii))*	—	—	170,000	48,000	—
Interest expenses on loans from Dalipal Group *(Note (i))*	781	831	—	—	—
Interest income on loans granted to Dalipal Group *(Note (ii))*	—	—	3,848	3,165	—
Guarantees provided by related parties at the end of the reporting period *(Note (iii))*	246,650	377,020	848,230	575,800	—

Notes:

(i) The loans from a related party bore interest rate at 5.44% per annum and had been fully repaid in 2018.

(ii) The loans granted to Dalipal Group bore interest rate at 4.35% per annum and had been fully settled in 2018.

(iii) The guarantees provided by Dalipal Group, Mr. Meng Fanyong and/or his spouse had been released in 2019.

(c) Balances with related parties at the end of the reporting period

The Group's balances with related parties as at the end of each reporting period are as follows:

	At 31 December			At 30 June
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans from Dalipal Group *(Note 26(b)(i))*	13,500	831	—	—

(d) Key management personnel remuneration

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

	Years ended 31 December			Six months ended 30 June	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Short-term employee benefits	1,639	3,559	5,005	1,748	2,092
Contributions to defined contribution retirement plan	113	55	130	44	84
	1,752	3,614	5,135	1,792	2,176

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

27 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting period beginning on 1 January 2019

Up to the date of issue of the Historical Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period beginning on 1 January 2019 and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to IFRS 3, *Business Combination, Definition of a business*	1 January 2020
Amendments to IAS 1, *Presentation of financial statements,* and IAS 8, *Accounting policies, changes in accounting estimates and errors, Definition of a material*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021
Amendments to IFRS 10 and IAS 28, *Sale or contribution of assets between an investor and its associate or joint venture*	To be determined

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations are expected to be in the period of initial application. So far it has concluded that the adoption of these amendments, new standards and interpretations are unlikely to have a significant impact.

28 Subsequent events

(a) Capitalisation issue

Pursuant to the resolutions of the equity shareholders of the Company passed on 19 June 2019 and 8 October 2019 as detailed in the section headed "Appendix V — Statutory and General Information" set out in the Prospectus, conditional on the share premium account of the Company being credited as a result of the initial public offering of the Company, the directors were authorised to capitalise HK$119,900,000 standing to the credit of the share premium account of the Company by applying that sum in paying up in full at par 1,199,000,000 shares for allotment and issue to the holders of shares whose names appear on the register of members of the Company at the close of business on 19 June 2019 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in the Company and so that the shares to be allotted and issued shall rank *pari passu* in all respects with the then existing issued shares.

(b) Adoption of share option schemes

Pursuant to the resolutions of the equity shareholders of the Company passed on 19 June 2019, the Company adopted a pre-IPO share option scheme and conditionally adopted the share option scheme, as detailed in paragraphs headed "16. Pre-IPO Share Option Scheme" and "17. Share Option Scheme", respectively, in the section headed "Appendix V — Statutory and General Information" set out in this Prospectus.

29 Immediate and ultimate holding company

The directors of the Company consider the immediate holding company and ultimate controlling parties of the Company at 30 June 2019 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.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2019 and up to the date of this report.

The following information does not form part of the Accountants' Report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this prospectus and the historical financial information included in the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the equity shareholders of the Company as at 30 June 2019 as if the Global Offering had taken place on 30 June 2019.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 30 June 2019 or at any future date.

	Consolidated net tangible assets attributable to equity shareholders of the Company as at 30 June 2019(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share(3)	
	RMB'000	*RMB'000*	*RMB'000*	*RMB(4)*	*HK$(5)*
Based on an Offer Price of HK$1.59 per Share	887,695	403,124	1,290,819	0.86	0.96
Based on an Offer Price of HK$1.83 per Share	887,695	466,299	1,353,994	0.90	1.00

Notes:

(1) The consolidated net tangible assets attributable to the equity shareholders of the Company as at 30 June 2019 is compiled based on the consolidated statements of financial position included in the Accountants' Report set out in Appendix I to this Prospectus, which is based on the consolidated total equity attributable to the equity shareholders of the Company as at 30 June 2019 of RMB887,695,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$1.59 and HK$1.83 per Share, after deduction of the underwriting fees and other related expenses payable by the Group subsequent to 30 June 2019 and does not take into accountant any shares which may be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme. The estimated net proceeds of the Global Offering have been converted to Renminbi at the PBOC rate of approximately HK$1.11 to RMB1.00. No representation is made that Hong Kong dollars amount have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rate.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 1,500,000,000 Shares, being the number of shares expected to be in issue following the completion of the Capitalisation Issue and the Global Offering, and does not take into account any shares which may be issued upon the exercise of the Over-allotment Option and the options granted under the Share Option Scheme.

(4) The unaudited pro forma adjusted net tangible assets per Share amounts in RMB are converted to Hong Kong dollar with the PBOC rate of approximately RMB1.00 to HK$1.11. No representation is made that Renminbi amount have been, could have been or may be converted to Hong Kong dollars, or vice versa or at any other rate.

(5) The Group's property interests located in the People's Republic of China (the "PRC") as at 30 June 2019 have been valued by APAC Asset Valuation and Consulting Limited, an independent property valuer. Details of the valuation is set out in Appendix III to this Prospectus. The above unaudited pro forma statement of adjusted net tangible assets does not take into account the surplus arising from the revaluation of the Group's property interests. The revaluation surplus has not been recorded in the historical financial information of the Group as at 30 June 2019 and will not be recorded in the consolidated financial statements of the Group in future periods as the Group's property, plant and equipment are stated at cost less accumulated depreciation and impairment loss, if any. If the valuation surplus were recorded in the Group's consolidated financial statements, addition annual depreciation of approximately RMB11.0 million would be charged against the profit in the future periods.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2019.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this prospectus.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF DALIPAL HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Dalipal Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets as at 30 June 2019 and related notes as set out in Part A of Appendix II to the prospectus dated 28 October 2019 (the "Prospectus") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Part A of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offering of the ordinary shares of the Company (the "Global Offering") on the Group's financial position as at 30 June 2019 as if the Global Offering had taken place at 30 June 2019. As part of this process, information about the Group's financial position as at 30 June 2019 has been extracted by the Directors from the Group's historical financial information included in the Accountants' Report as set out in Appendix I to the Prospectus.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("HKSAE") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of events or transactions as at 30 June 2019 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and

- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our procedures on the pro forma financial information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America, auditing standards of the Public Company Accounting Oversight Board (United States) or any overseas standards and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described in the section headed "Future Plans and Use of Proceeds".

Opinion

In our opinion:

a) the pro forma financial information has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong

28 October 2019

The following is the text of a letter and a property valuation report prepared for inclusion in this prospectus, received from APAC Asset Valuation and Consulting Limited, an independent property valuer, in connection with their valuations as at 31 July 2019 of the Properties held by the Group.

APAC Asset Valuation and Consulting Limited
5/F., Blissful Building, 243-247 Des Voeux Road Central, Hong Kong
Tel: (852) 2357 0059
Fax: (852) 2951 0799

The Directors
Dalipal Holdings Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

28 October 2019

Dear Sirs/Madams,

RE: VARIOUS PROPERTIES LOCATED IN HEBEI PROVINCE, THE PEOPLE'S REPUBLIC OF CHINA (THE "PROPERTIES")

In accordance with the instructions from Dalipal Holdings Limited (the "Company") for us to value the Properties held by the Company and/or its subsidiaries (hereinafter together referred to as the "Group") situated in The People's Republic of China (the "PRC"), we confirm that we have carried out site inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at 31 July 2019 (the "valuation date") for the purpose of incorporation into the prospectus issued by the Group. The valuation result should not be construed to be a fairness opinion, a solvency opinion or an investment recommendation. It is inappropriate to use our valuation report for purpose other than its intended use or by third parties. These third parties should conduct their own investigation and independent assessment of the Properties.

BASIS OF VALUATION

Our valuation of each of the Properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

We are independent of the Group and our valuations are prepared in accordance with the "HKIS Valuation Standards" published by the Hong Kong Institute of Surveyors and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owners sell the Properties on the open market without the benefit or burden of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which would serve to affect the values of the Properties.

No allowance has been made in our valuation report for any charge, mortgage or amount owing on the Properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

VALUATION METHODOLOGY

In valuing Property Nos. 1, 2, 3 and 4, which are held by the Group for industrial operation in the PRC, due to the nature of the buildings and structures of the properties, there are no readily identifiable market comparables, and the buildings and structures cannot be valued on the basis of direct comparison. Therefore, we have adopted the Depreciated Replacement Cost ("DRC") Approach to value the properties. DRC Approach is based on an estimate of the market value for the existing use of the land plus the current replacement costs of the buildings and structures, from which deductions are then made to allow for physical deterioration and all relevant forms of obsolescence and optimisation. The DRC Approach is subject to adequate potential profitability of the concerned business. Our valuations apply to the whole of the complex or development as an unique interest and no piecemeal transaction of the complex or development is assessed.

In valuing Property Nos. 5 and 6, which are held for owner-occupation or for future development in the PRC, we have valued the properties by the direct comparison approach assuming sale with the benefit of vacant possession in their existing states by making reference to comparable sales evidences as available in the relevant markets.

TITLE AND ASSUMPTIONS

We have been provided with copies of extracts of title documents relating to the Properties. However, we have not caused title searches to be made for the Properties at the relevant government bureaus in the PRC and have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuations for the Properties in the PRC, we have relied on the legal opinion provided by the Group's PRC legal adviser, Jingtian & Gongcheng (競天公誠律師事務所), regarding the titles and other legal matters in relation to the Properties.

SOURCES OF INFORMATION

We have relied to a very considerable extent on information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters. No on-site measurement has been taken. Dimensions, measurements and areas included in the valuation report are only approximations. We have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to our valuations. We were also advised by the Group that no material facts have been omitted from the information provided to us.

SITE INSPECTIONS

Site inspections of the Properties were carried out by Mr. James Chu (BSc (Hons) Surveying) and Ms. Kathy Lau in January and September 2019 respectively. We have inspected the exterior and, where possible, the interior of the Properties. We have not inspected those parts of the Properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We have not carried out detailed measurements to verify the correctness of the areas in respect of the Properties but have assumed that the areas shown on the title documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

In the course of our inspections, we did not notice any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Properties are free of rot, infestation or any other structural defects. No tests have been carried out on any of the services.

LIMITATION OF LIABILITIES

This valuation report is issued on the understanding that you have drawn our attention to all matters of which they are aware concerning the Properties which may have an impact on our valuation report up to the valuation date. We have no responsibility to update this valuation report for events and circumstances occurring after the date of completion of our assessment but will be pleased to discuss further instructions as may be required.

MANAGEMENT CONFIRMATION OF FACTS

A draft of this valuation report and our calculation has been sent to the Group. The Group has reviewed and orally confirmed to us that facts as stated in this valuation report and calculation are accurate in all material respects and that the Group is not aware of any material matters relevant to our engagement which have been excluded.

CURRENCY

Unless otherwise stated, all monetary amounts in our valuations are in Renminbi (RMB).

Our summary of values and valuation report are attached.

Yours faithfully,

For and on behalf of
APAC Asset Valuation and Consulting Limited
Ken Wong
MHKIS, MCIREA, RPS (GP)
Director

Note: Mr. Ken Wong is a Registered Professional Surveyor in General Practice Division with over 18 years' valuation experience on properties in Hong Kong and the PRC.

SUMMARY OF VALUES

No.	Property	Market value in existing state as at 31 July 2019	Interest attributable to the Group	Market value attributable to the Group as at 31 July 2019
Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC				
1.	An industrial complex located at Jinde Road, Xinhua District, Cangzhou, Hebei Province, PRC	RMB83,270,000	99%	RMB82,437,300
2.	An industrial complex located at Gongnong Road, Xinhua District, Cangzhou, Hebei Province, PRC	RMB83,870,000	99%	RMB83,031,300
3.	An industrial complex located at North of Yongji Road, Gaoxin District, Cangzhou, Hebei Province, PRC	RMB196,830,000	99%	RMB194,861,700
4.	An industrial complex located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, PRC	RMB557,700,000	99%	RMB552,123,000
5.	Rooms 1601–1604, Guan Ye Building, South of Beijing Road and East of Community Service Centre, Cangzhou, Hebei Province, PRC			No commercial value
	Sub-total:	**RMB921,670,000**		**RMB912,453,300**

No.	Property	Market value in existing state as at 31 July 2019	Interest attributable to the Group	Market value attributable to the Group as at 31 July 2019
Group II — Property held for future development by the Group in the PRC				
6.	Various land parcels located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, PRC	RMB89,800,000	99%	RMB88,902,000
	Sub-total:	**RMB89,800,000**		**RMB88,902,000**
	Total:	**RMB1,011,470,000**		**RMB1,001,355,300**

VALUATION REPORT

Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
1.	An industrial complex located at Jinde Road, Xinhua District, Cangzhou, Hebei Province, PRC	The Property is located in Xinhua District of Cangzhou. The immediate locality is an industrial area with developments comprising industrial buildings of various ages and heights. According to the information provided by the Group, the Property comprises two parcels of land with a total site area of 111,711.50 sq.m. with various buildings, which were completed in between 1982 and 2007, erected thereon. The buildings of the Property comprise 7 buildings including various workshops and other ancillary buildings with a total gross floor area of approximately 32,418.95 sq.m. The land use rights of the Property have been allocated for railway use and granted for a term due to expire on 18 September 2053 for warehouse use.	As at the valuation date, the Property was being occupied for industrial use.	RMB83,270,000 (99% interest attributable to the Group: RMB82,437,300) *(refer to Note 4)*

Notes:

1. Pursuant to the following State-Owned Land Use Certificates, the land use rights of the Property with a total site area of approximately 111,711.50 sq.m. have been granted and allocated to Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Expiry Date	Usage	Site Area *(sq.m.)*
Cang Xin Guo Yong (2006) No. 711	12 July 2006	18 September 2053	Warehouse	110,440.20
Cang Xin Guo Yong (2006) No. 715	12 July 2006	NA	Railway	1,271.30
			Total:	**111,711.50**

2. Pursuant to the following Building Ownership Certificates, the building ownership rights of the buildings of the Property are vested in Dalipal Pipe. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Usage	Gross Floor Area
			(sq.m.)
Fang Quan Zheng Cang Shi Zi No. 2001911	4 January 2009	Office	2,025.00
Fang Quan Zheng Cang Zi No. 2005496	22 June 2011	Industrial and Warehouse	280.19
Fang Quan Zheng Cang Shi Zi No. 2002377	28 April 2006	Workshop	5,527.89
Fang Quan Zheng Cang Zi No. 2005500	22 June 2011	Industrial and Warehouse	21,037.54
Fang Quan Zheng Cang Zi No. 2005493	22 June 2011	Industrial and Warehouse	1,802.23
Fang Quan Zheng Cang Zi No. 2005498	22 June 2011	Industrial and Warehouse	477.36
Fang Quan Zheng Cang Zi No. 2005497	22 June 2011	Industrial and Warehouse	1,268.74
		Total:	**32,418.95**

3. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. Dalipal Pipe is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the land use rights (i.e. Cang Xin Guo Yong (2006) No. 711) within the terms of the land use rights;

   ii. the land use rights of the Property (i.e. Cang Xin Guo Yong (2006) No. 711) are subject to a pledge. Dalipal Pipe is still entitled to occupy or use the pledged land use rights;

   iii. apart from the aforesaid pledges, the land use rights (i.e. Cang Xin Guo Yong (2006) No. 711) are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights;

   iv. Dalipal Pipe is entitled to occupy and use the land use rights (i.e. Cang Xin Guo Yong (2006) No. 715);

   v. Dalipal Pipe is the legal owner of the buildings as stated in the aforesaid Building Ownership Certificates and is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the buildings as stated in the aforesaid Building Ownership Certificates;

   vi. the buildings of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged buildings; and

   vii. apart from the aforesaid pledges, the buildings as stated in the aforesaid Building Ownership Certificates are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights.

4. In the course of our valuation, we have ascribed no commercial value to the land use right (i.e. Cang Xin Guo Yong (2006) No. 715) which cannot be transferred in the market.

VALUATION REPORT

Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
2.	An industrial complex located at Gongnong Road, Xinhua District, Cangzhou, Hebei Province, PRC	The Property is located in Xinhua District of Cangzhou. The immediately locality is an industrial area with developments comprising industrial buildings of various ages and heights. According to the information provided by the Group, the Property comprises three parcels of land with a total site area of 78,938.30 sq.m. with various buildings, which were completed in between 1983 and 2008, erected thereon. The buildings of the Property comprise 9 buildings including various workshops and other ancillary buildings with a total gross floor area of approximately 35,148.44 sq.m. The land use rights of the Property have been granted for three concurrent terms due to expire on 18 September 2053 and 23 February 2054 respectively for industrial use.	As at the valuation date, the Property was being occupied for industrial use.	RMB83,870,000 (99% interest attributable to the Group: RMB83,031,300)

Notes:

1. Pursuant to the following State-Owned Land Use Certificates, the land use rights of the Property with a total site area of approximately 78,938.30 sq.m. have been granted to Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Expiry Date	Usage	Site Area
				(sq.m.)
Cang Xin Guo Yong (2006) No. 714	12 July 2006	23 February 2054	Industrial	13,880.50
Cang Xin Guo Yong (2006) No. 712	12 July 2006	18 September 2053	Industrial	12,271.90
Cang Xin Guo Yong (2006) No. 713	12 July 2006	18 September 2053	Industrial	52,785.90
			Total:	**78,938.30**

2. Pursuant to the following Building Ownership Certificates, the building ownership rights of the buildings of the Property are vested in Dalipal Pipe. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Usage	Gross Floor Area
			(sq.m.)
Fang Quan Zheng Cang Zi No. 2001921	2 April 2010	Industrial and Warehouse	1,054.78
Fang Quan Zheng Cang Zi No. 2004784	2 April 2010	Industrial and Warehouse	560.06
Fang Quan Zheng Cang Zi No. 2004785	2 April 2010	Industrial and Warehouse	558.60
Fang Quan Zheng Cang Zi No. 2001920	2 April 2010	Industrial and Warehouse	1,182.13
Fang Quan Zheng Cang Shi Zi No. 2002246	4 January 2009	Industrial and Warehouse	20,842.90
Fang Quan Zheng Cang Zi No. 2005499	22 June 2011	Industrial and Warehouse	2,081.20
Fang Quan Zheng Cang Zi No. 00016992	25 March 2013	Industrial	547.15
Fang Quan Zheng Cang Shi Zi No. 2003453	14 January 2008	Office	7,743.82
Fang Quan Zheng Cang Zi No. 2005494	22 June 2011	Industrial and Warehouse	577.80
		Total:	**35,148.44**

3. As advised by the Group, two parcels of land with a total site area of approximately 66,666.40 sq m and 8 buildings with a total gross floor area of approximately 27,404.62 sq m will be resumed by the Government. Please refer to note (4) (i) for details.

4. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. the government will resume two parcels of land of the property (Certificate Nos. Cang Xin Guo Yong (2006) No. 713 and Cang Xin Guo Yong (2006) No. 714) and eight buildings (Certificate Nos. Fang Quan Zheng Cang Zi Nos. 00016992, 2001920, 2001921, 2004784, 2004785, 2005494 and 2005499 and Fang Quan Zheng Cang Shi Zi No. 2002246,) according to the relocation of industries scheme and the relevant title certificates have been returned to the government on 28 August 2019. Before 28 August 2019, Dalipal Pipe is entitled to occupy, use, earn from, dispose of (including but not limited to transfer, lease or pledge) or by other legal means dispose of the said land and buildings of the property. According to the Dalipal Pipe Company Urban Retreat, Relocation and Transformation Projects — Non-domestic Property Resumption Compensation Agreement (Fei Zhu Zhai Zheng Xie Zi Di 01 Hao) ("Compensation Agreement") dated 28 September 2019 entered into between Cangzhou City Xinhua District Resumption Management Office and Dalipal Pipe, the government will resume two parcels of land and eight properties and Dalipal can receive land resumption compensation and the related payments in the amount of approximately RMB205.6 million. The payment will be made in two installments. The first installment of RMB150.0 million has been paid to Dalipal after the execution of the agreement and the second installment of approximately RMB55.6 million will be paid within five business days after the keys to the relevant properties have been provided to the relevant government authority. The Compensation Agreement is valid and enforceable to the signing parties.

   ii. Dalipal Pipe is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the land use rights within the terms of the land use rights of the un-resumed land;

   iii. the land use rights of the un-resumed land of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged land use rights, apart from the aforesaid pledges, the land use rights are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights; and

   iv. Dalipal Pipe is the legal owner of the building (Fang Quan Zheng Cang Shi Zi No. 2003453) and is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the building, the building is subject to pledge. Dalipal Pipe is still entitled to occupy or use the buildings.

VALUATION REPORT

Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
3.	An industrial complex located at North of Yongji Road, Gaoxin District, Cangzhou, Hebei Province, PRC	The Property is located in North of Yongji Road of Gaoxin District of Cangzhou. The immediately locality is an industrial area with developments comprising industrial buildings of various ages and heights. According to the information provided by the Group, the Property comprises three parcels of land with a total site area of 171,272.17 sq.m. with various buildings, which were completed in between 2014 and 2018, erected thereon. The buildings of the Property comprise 20 buildings including various workshops and other ancillary buildings with a total gross floor area of approximately 71,093.76 sq.m. The land use rights of the Property have been granted for three concurrent terms due to expire on 22 February 2055 for industrial use.	As at the valuation date, the Property was being occupied for industrial use.	RMB196,830,000 (99% interest attributable to the Group: RMB194,861,700)

Notes:

1. Pursuant to the following State-Owned Land Use Certificates, the land use rights of the property with a total site area of approximately 171,272.17 sq.m. have been granted to Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Expiry Date	Usage	Site Area
				(sq.m.)
Cang Gao Guo Yong (2014) No. 017	2 September 2014	22 February 2055	Industrial	57,102.76
Cang Gao Guo Yong (2014) No. 018	2 September 2014	22 February 2055	Industrial	50,661.41
Ji (2017) Cang Zhou Shi (Gao Xin Qu) Bu Dong Chan Quan No. 0000009	29 May 2017	22 February 2055	Industrial	63,508.00
			Total:	**171,272.17**

2. Pursuant to the following Building Ownership Certificates, the building ownership rights of the buildings of the Property have been granted to Dalipal Pipe. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Usage	Gross Floor Area
			(sq.m.)
Cang Fang Quan Zheng Xian Zi No. 56813	7 August 2014	Non-domestic (Others)	168.60
Cang Fang Quan Zheng Xian Zi No. 56821	7 August 2014	Non-domestic (Boiler Room)	243.39
Cang Fang Quan Zheng Xian Zi No. 56820	7 August 2014	Non-domestic (Others)	165.56
Cang Fang Quan Zheng Xian Zi No. 56822	7 August 2014	Non-domestic (Others)	57.43
Cang Fang Quan Zheng Xian Zi No. 56815	7 August 2014	Non-domestic (Workshop)	38,805.76
Cang Fang Quan Zheng Xian Zi No. 56810	7 August 2014	Non-domestic (Others)	51.39
Cang Fang Quan Zheng Xian Zi No. 56809	7 August 2014	Non-domestic (Others)	218.27
Cang Fang Quan Zheng Xian Zi No. 56824	7 August 2014	Non-domestic (Switch Room)	98.26
Cang Fang Quan Zheng Xian Zi No. 56816	7 August 2014	Non-domestic (Workshop)	1,620.05
Cang Fang Quan Zheng Xian Zi No. 56819	7 August 2014	Non-domestic (Substation)	1,943.87
Cang Fang Quan Zheng Xian Zi No. 56818	7 August 2014	Non-domestic (Others)	69.70
Cang Fang Quan Zheng Xian Zi No. 56814	7 August 2014	Non-domestic (Others)	49.60
Cang Fang Quan Zheng Xian Zi No. 56825	7 August 2014	Non-domestic (Switch Room)	51.84
Cang Fang Quan Zheng Xian Zi No. 56812	7 August 2014	Non-domestic (Others)	219.47
Cang Fang Quan Zheng Xian Zi No. 56817	7 August 2014	Non-domestic (Warehouse)	704.00
Cang Fang Quan Zheng Xian Zi No. 56811	7 August 2014	Non-domestic (Office)	7,329.82
Cang Fang Quan Zheng Xian Zi No. 56823	7 August 2014	Non-domestic (Switch Room)	271.93
Cang Fang Quan Zheng Xian Zi No. 56807	7 August 2014	Non-domestic (Office)	4,350.34
Cang Fang Quan Zheng Xian Zi No. 56808	7 August 2014	Non-domestic (Others)	1,975.71
Cang Fang Quan Zheng Xian Zi No. 59659	9 September 2015	Non-domestic (Workshop)	12,698.77
		Total:	**71,093.76**

3. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. Dalipal Pipe is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the land use rights within the terms of the land use rights;

   ii. the land use rights of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged land use rights;

   iii. apart from the aforesaid pledges, the land use rights are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights;

   iv. Dalipal Pipe is the legal owner of the buildings as stated in the aforesaid Building Ownership Certificates and is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the buildings as stated in the aforesaid Building Ownership Certificates;

   v. the buildings of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged buildings; and

   vi. apart from the aforesaid pledges, the buildings as stated in the aforesaid Building Ownership Certificates are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights.

VALUATION REPORT

Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
4.	An industrial complex located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, PRC	The Property is located in North of Nanshugang Road of Bohai New District of Cangzhou. The immediately locality is an industrial area with developments comprising industrial buildings of various ages and heights. According to the information provided by the Group, the Property comprises portions of the three parcels of land with a total site area of 530,925.00 sq.m. (out of the three parcels of land with a total site area of 994,886.91 sq.m.) on which various buildings, which were completed between 2010 and 2019, erected thereon. The buildings of the Property comprise 23 buildings including various workshops and other ancillary buildings with a total gross floor area of approximately 250,536.21 sq.m. The land use rights of the Property have been granted for a term due to expire on 13 September 2059, 27 July 2060 and 15 April 2068 respectively for industrial use.	As at the valuation date, the Property was being occupied for industrial use.	RMB557,700,000 (99% interest attributable to the Group: RMB552,123,000)

Notes:

1. Pursuant to the following State-Owned Land Use Certificates, the land use rights of the property with a total site area of approximately 994,886.91 sq.m. have been granted to Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Expiry Date	Usage	Site Area *(sq.m.)*
Ji (2018) Cang Zhou Bo Hai Xin Qu Bu Dong Chan Quan No.0002042	4 May 2018	15 April 2068	Industrial	202,708.31
Cang Bo (Guo Yong) 2011 No.463	11 November 2011	27 July 2060	Industrial	301,840.67
Cang Bo (Guo Yong) 2011 No.1132	30 November 2011	13 September 2059	Industrial	490,337.93
			Total:	**994,886.91**

As advised by the Group, the Property comprise portion of the land parcels with a total site area of approximately 530,925.00 sq.m.

2. Pursuant to the following Building Ownership Certificates, the building ownership rights of the buildings of the Property have been granted to Dalipal Pipe. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Usage	Gross Floor Area (sq.m.)
Ji (2018) Cang Zhou Shi Bu Dong Chan Quan No. 0044735	29 December 2018	Industrial	101,104.99
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004277	20 February 2019	Industrial	5,534.70
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004278	20 February 2019	Industrial	1,638.40
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004279	20 February 2019	Industrial	5,954.12
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004280	20 February 2019	Industrial	7,743.28
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004282	20 February 2019	Industrial	4,418.04
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004283	20 February 2019	Industrial	6,630.16
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0028574	26 August 2019	Industrial	100,707.62
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0028575	26 August 2019	Industrial	4,353.61
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0028576	26 August 2019	Industrial	624.23
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0028577	26 August 2019	Industrial	1,248.03
Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0028578	26 August 2019	Industrial	10,579.03
		Total:	**250,536.21**

3. Pursuant to five Construction Works Planning Permit — Jian Zi No. 130901201800049, Jian Zi No. 130901201800090, Jian Zi No. 130901201800091, Jian Zi No. 130901201800092 and Jian Zi No. 130901201800093, the planned construction works of the property with a total gross floor area of approximately 221,659.23 sq.m. have been approved for construction.

4. Pursuant to four Construction Works Commencement Permits — Nos. 130905201807200101, 130905201902030101, 130905201902030201 and 130905201902030301 dated 20 July 2018 and 3 February 2019, the planned construction works of the Property with a total gross floor area of approximately 221,404.40 sq.m. have been permitted to commence.

5. 11 buildings of the Property with a total gross floor area of 117,512.52 sq.m. were newly completed and applying for the relevant title ownership certificates before the valuation date. The relevant planning approval and permits of these buildings have been obtained and are stated in notes (3) and (4) above. As the relevant title ownership certificates have been obtained (please refer to note (2)), we have provided the market value for these 11 buildings.

6. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. Dalipal Pipe is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the land use rights within the terms of the land use rights;

ii. the land use rights of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged land use rights;

iii. apart from the aforesaid pledges, the land use rights are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights;

iv. Dalipal Pipe is the legal owner of the buildings as stated in the aforesaid Building Ownership Certificate and is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the buildings as stated in the aforesaid Building Ownership Certificate;

v. the buildings of the Property of the Building Ownership Certificates Ji (2018) Cang Zhou Shi Bu Dong Chan Quan No. 0044735, Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004278, Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004279 and Ji (2019) Cang Zhou Shi Bu Dong Chan Quan No. 0004280 are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged buildings;

vi. apart from the aforesaid pledges, the buildings as stated in the aforesaid Building Ownership Certificate are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights;

vii. there exist various buildings with a total gross floor area of 31,918.70 sq.m. which have not obtained any Construction Work Commencement Permits before the construction works have been begun and have not applied for any completion examination formalities before the buildings have been used. Pursuant to the confirmation letter issued by Cangzhou Bohai New District Urban Management Bureau (滄州渤海新區城市管理局), Dalipal Pipe will not be subject to any punishments; and

viii. Cangzhou Bohai New District Urban Management Bureau is entitled to issue such confirmation letter and therefore, the risk for Dalipal Pipe of being punished is low.

VALUATION REPORT

Group I — Properties held by the Group for industrial operation or for owner occupation in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
5.	Rooms 1601–1604, Guan Ye Building, South of Beijing Road and East of Community Service Centre, Cangzhou, Hebei Province, PRC	Guan Ye Building (the "Building") is located in South of Beijing Road and East of Community Service Centre of Cangzhou. The immediately locality is a newly-developed area with developments comprising commercial and residential buildings of various ages and heights. According to the information provided by the Group, the Property comprises four office units with a total gross floor area of approximately 1,700.00 sq.m. The Building was completed in 2015. The land use rights of the Property have been granted for a term due to expire on 8 September 2051 for commercial finance use.	As at the valuation date, the Property was being occupied for office use.	No commercial value *(refer to Note 5)*

Notes:

1. Pursuant to the Sale and Purchase Agreement entered into between 滄州建投管業大廈有限公司 and Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company, the Property was purchased by Dalipal Pipe at a consideration of RMB11,050,000.

2. Pursuant to the supplementary agreement to the Sale and Purchase Agreement dated 25 December 2018, the Property was purchased by Dalipal Pipe and Dalipal Pipe is entitled to occupy, use, lease or by other legal means dispose of the Property.

3. As advised by the Group, Dalipal Pipe is applying for the Building Ownership Certificate for the Property.

4. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. the aforesaid Sale and Purchase Agreement and supplementary agreement are legally effective and binding to each party. The rights under the aforesaid agreements are recognised and protected by the PRC laws; and

   ii. pursuant to the aforesaid Sale and Purchase Agreement and supplementary agreement, Dalipal Pipe is entitled to possession, use, rental and by other legal means disposal of the Property.

5. In the course of our valuation, we have ascribed no commercial value to the Property which do not have any Real Estate Title Certificate. For your reference purpose, the market value of the Property assuming the Building Ownership Certificate has been obtained was approximately RMB12,500,000 (99% interest attributable to the Group: RMB12,375,000) as at the valuation date.

VALUATION REPORT

Group II — Property held for future development by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 July 2019
6.	Various land parcels located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, PRC	The Property is located in North of Nanshugang Road of Bohai New District of Cangzhou. The immediately locality is an industrial area with developments comprising industrial buildings of various ages and heights. According to the information provided by the Group, the Property comprises portions of the three parcels of land with a total site area of 463,961.91 sq.m. (out of the three parcels of land with a total site area of 994,886.91 sq.m.) The land use rights of the Property have been granted for a term due to expire on 13 September 2059, 27 July 2060 and 15 April 2068 respectively for industrial use.	As at the valuation date, the Property was vacant.	RMB89,800,000 (99% interest attributable to the Group: RMB88,902,000)

Notes:

1. Pursuant to the following State-Owned Land Use Certificates, the land use rights of the property with a total site area of approximately 994,886.91 sq.m. have been granted to Dalipal Pipe Company* (達力普石油專用管有限公司) ("Dalipal Pipe"), a limited liability company established under the laws of the PRC and an indirect 99% owned subsidiary of the Company. Details of the certificates are as follows:

Certificate No.	Date of Issuance	Expiry Date	Usage	Site Area
				(sq.m.)
Ji (2018) Cang Zhou Bo Hai Xin Qu Bu Dong Chan Quan No.0002042	4 May 2018	15 April 2068	Industrial	202,708.31
Cang Bo (Guo Yong) 2011 No.463	11 November 2011	27 July 2060	Industrial	301,840.67
Cang Bo (Guo Yong) 2011 No.1132	30 November 2011	13 September 2059	Industrial	490,337.93
			Total:	**994,886.91**

As advised by the Group, the Property comprise portion of the land parcels with a total site area of approximately 463,961.91 sq.m.

2. We have been provided with a legal opinion on the property issued by the Group's PRC legal adviser, which contains, *inter alia*, the following:

   i. Dalipal Pipe is entitled to occupy, use, earn from, dispose (including but not limited to transfer, lease or pledge) or by other legal means dispose of the land use rights within the terms of the land use rights;

   ii. the land use rights of the Property are subject to pledges. Dalipal Pipe is still entitled to occupy or use the pledged land use rights;

   iii. apart from the aforesaid pledges, the land use rights are not subject to any seizures, pledges and other kinds of limitations or thirty party's rights.

3. In the course of our valuation, we have adopted about RMB193/sq.m. as the unit rate of our valuation for the Property.

   In undertaking our valuation of the Property, we have made reference to the transaction records of some land parcels in the locality which have similar characteristic to the Property. The unit transaction prices of those land parcels are about RMB177/sq.m. to RMB190/sq.m. Due adjustments to the unit transaction prices of those land parcels have been made to reflect factors including but not limited to time, location, quality and size in arriving at the key assumptions.

* *For identification purpose only*

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — B. Documents Available for Inspection". As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The Articles of Association were adopted on 19 June 2019. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and the giving of security for loans to Directors

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) Financial assistance to purchase shares of the Company or its holdings company

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

(aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;

(bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;

(cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;

(dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and

(hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

(vii) Remuneration

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) Qualification shares

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) Indemnity to Directors

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

(i) increase its share capital;

(ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

(iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;

(iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;

(v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

(vi) change the currency of denomination of its share capital; and

(vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions — majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice has been duly given in accordance with the Article 2(i) below for further details.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing

Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

At the annual general meeting in each year, the members shall appoint one or more firms of auditors to hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of the term of office and shall by ordinary resolution at that meeting appoint another auditor in its place for the remainder of his term. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

Extraordinary general meetings may be convened on the requisition of 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 having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words "share" and "shareholder" and "member" therein shall include "stock" and "stockholder".

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together representing not less than 95 per cent. of the total voting rights at the meeting of all the members.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

(i) in paying distributions or dividends to members;

(ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;

(iii) in redeeming or purchasing its shares as provided in the Companies Law; or

(iv) in writing off

(aa) the preliminary expenses of the company; or

(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands. The register of members shall contain particulars as required by Section 40 of the Companies Law. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times. A copy of the register of Directors must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(m) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

(n) Economic Substance Requirements

Pursuant to the International Tax Cooperation (Economic Substance) Law, 2018 of the Cayman Islands ("ES Law") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Law. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Law.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Appendix VI — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection — B. Documents Available for Inspection". Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 28 August 2018.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) Changes in share capital

(i) As at the date of incorporation of our Company, the authorised share capital was HK$380,000 divided into 3,800,000 Shares having a par value of HK$0.10 each.

(ii) The authorised share capital of our Company was increased from HK$380,000 to HK$2,000,000,000 by the creation of 19,996,200,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below and subject to the conditions contained therein.

(iii) Immediately following completion of the Global Offering and Capitalisation Issue but taking no account of any Shares which have been or may be allotted and issued pursuant to the exercise of the options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme and upon the exercise of the Over-allotment Option, our authorised share capital will be HK$2,000,000,000 divided into 20,000,000,000 Shares, of which 1,500,000,000 Shares will be issued fully paid or credited as fully paid, and 18,500,000,000 Shares will remain unissued.

(iv) Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Controlling Shareholders over us.

Save as disclosed herein and in the paragraphs headed "3. Resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019" and "4. Group reorganisation" of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) Founder shares

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019

By resolutions in writing of our Shareholders passed on 19 June 2019 and 8 October 2019:

(a) we approved and adopted the amended and restated Articles of Association;

(b) we approved and adopted the amended and restated memorandum of association with effect upon the increase of the authorised share capital of our Company becoming effective as set out in the resolution in paragraph (d)(i) below;

(c) we adopted the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in paragraph headed "16. Pre-IPO Share Option Scheme" of this Appendix, and our Directors were authorised to grant options to subscribe for Shares thereunder and, conditional on the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of the options which may be granted under the Pre-IPO Share Option Scheme on or before the date falling 30 days after the date of this prospectus, to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Pre-IPO Share Option Scheme;

(d) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and such listing and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (bb) the Offer Price having been duly determined; (cc) the execution and delivery of the Underwriting Agreements; and (dd) the obligations of the Underwriters under each of the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) thereunder by the Underwriters' Representative, on behalf of the Underwriters) and not being terminated in accordance with the respective terms of the Underwriting Agreements or otherwise, in each case, on or before the day falling 30 days after the date of this prospectus:

   (i) the authorised share capital of our Company was increased from HK$380,000 to HK$2,000,000,000 by the creation of a further 19,996,200,000 new Shares;

   (ii) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;

   (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "17. Share Option Scheme" of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

(iv) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK$119,900,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 1,199,000,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 19 June 2019 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

(v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, or pursuant to exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, or under the Global Offering or upon the exercise of the Over-allotment Option, an aggregate number of Shares not exceeding the sum of (aa) 20% of the aggregate number of Shares in issue immediately following completion of the Global Offering and Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, and (bb) the aggregate number of Shares which may be purchased by us pursuant to the authority granted to the Directors as referred to in subparagraph (vi) below, until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

(vi) a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed or recognised by the SFC and the Stock Exchange for this purpose with an aggregate number of Shares not exceeding 10% of the aggregate number of Shares in issue immediately following the completion of the Global Offering and Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option or exercise of any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option

Scheme until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles of Association, the Companies Law or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first;

(vii) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (vi) above; and

(e) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our non-executive Director and independent non-executive Directors with our Company were approved.

4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange, details of which are set out in the section headed "History, Reorganisation and Corporate Structure — The Reorganisation".

5. Changes in share capital of our subsidiaries

Our subsidiaries are listed in the Accountants' Report set out in Appendix I to this prospectus.

In addition to the alterations described in the section headed "History, Reorganisation and Corporate Structure", the following alterations in the share capital of each of our Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) Beauty Bright was incorporated on 19 September 2018 in the BVI as a limited liability company with an authorised share capital of US$50,000 divided into 50,000 ordinary shares. Upon activation on 16 October 2018, Beauty Bright allotted and issued one share to Mr. Yau; and

(b) Complete Glory was incorporated on 19 October 2018 in Hong Kong as a limited liability company. The issued share capital of Complete Glory, on incorporation, was HK$1 divided into one share. On 22 October 2018, one subscriber share was transferred to Beauty Bright.

Save as disclosed above, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Further information about our Group's PRC establishment

Our Group has interest in the registered capital of four companies established in the PRC. A summary of the corporate information as at the Latest Practicable Date of each of those companies is set out as follows:

(a) Dalipal Industrial

(i)	Name of the enterprise:	Dalipal Industrial
(ii)	Economic nature:	Wholly foreign owned enterprise
(iii)	Registered owner:	Dalipal HK
(iv)	Total investment:	RMB10 million
(v)	Registered capital:	RMB10 million (the registered capital of Dalipal Industrial had not been paid up)
(vi)	Attributable interest to our Group:	100%
(vii)	Term of operation:	From 14 November 2018 to 13 November 2048
(viii)	Scope of business:	OCTG, oil pipe and oil pipe material manufacturing; R&D, promotion and technical services consultation of OCTG technologies; metal casting; mechanical equipment manufacturing; general goods transport; leasing of self-owned properties; sales of self-produced products; import and export business; after-sales maintenance services of the above related products. (Projects subject to approval according to law may be operated after approval by relevant departments)

(b) Shengjie Pipe

(i)	Name of the enterprise:	Shengjie Pipe
(ii)	Economic nature:	Limited liability company
(iii)	Registered owner:	(i) Dalipal Industrial (99%) (ii) Dalipal Group (1%)
(iv)	Registered capital:	RMB10.101 million (approximately 1.0% of the registered capital of Shengjie Pipe had been paid up)

(v)	Attributable interest to our Group:	99%
(vi)	Term of operation:	From 16 November 2018 to 15 November 2048
(vii)	Scope of business:	OCTG, oil pipe and oil pipe material manufacturing; R&D, promotion and technical services consultation of OCTG technologies; metal casting; mechanical equipment manufacturing; general goods transport; leasing of self-owned properties; sales of self-produced products; import and export business; after-sales maintenance services of the above related products. (Projects subject to approval according to law may be operated after approval by relevant departments)

(c) Xuanxiang Pipe

(i)	Name of the enterprise:	Xuanxiang Pipe
(ii)	Economic nature:	Sino-foreign equity joint venture company
(iii)	Registered owner:	(i) Shengjie Pipe (97%) (ii) Complete Glory (3%)
(iv)	Total investment:	RMB479,363,300
(v)	Registered capital:	RMB200 million (the registered capital of Xuanxiang Pipe had been fully paid up)
(vi)	Attributable interest to our Group:	99%
(vii)	Term of operation:	From 14 November 2018 to 13 November 2048
(viii)	Scope of business:	OCTG, oil pipe and oil pipe material manufacturing; metal casting; mechanical equipment manufacturing; sales of self-produced products; import and export business; wholesale, after-sales maintenance and related technical consultation services of the above related products. (Projects subject to approval according to law may be operated after approval by relevant departments)

(d) Dalipal Pipe

(i)	Name of the enterprise:	Dalipal Pipe
(ii)	Economic nature:	Limited liability company
(iii)	Registered owner:	Xuanxiang Pipe
(iv)	Registered capital:	RMB155,525,773 (the registered capital of Dalipal Pipe had been fully paid up)
(v)	Attributable interest to our Group:	99%
(vi)	Term of operation:	From 18 September 1998 to 11 November 2027
(vii)	Scope of business:	OCTG, oil pipe and oil pipe material manufacturing; metal casting; mechanical equipment manufacturing; sales of self-produced products; import and export business; wholesale of the above related products, after-sales maintenance and related technologies consultation services; leasing of self-owned properties. (Projects subject to approval according to law may be operated after approval by relevant departments)

7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 19 June 2019, the Repurchase Mandate was given to the Directors authorising any repurchase by us of Shares on the Stock Exchange or any other stock exchange on which our securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the number of Shares in issue immediately following completion of the Global Offering but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, such mandate to expire at the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the

Articles of Association or applicable law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands laws, any repurchases by us may be made out of our profits or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or from sums standing to the credit of our share premium account or, if so authorised by the Articles of Association and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profits of us or from sums standing to the credit of our share premium account or, if authorised by the Articles of Association and subject to the provisions of the Companies Law, out of capital.

(c) Reasons for repurchases

The Directors believe that it is in the best interest of our Company and the Shareholders for the Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit our Company and the Shareholders as a whole.

(d) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or our gearing position as compared to the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or our gearing levels which, in the opinion of the Directors, are from time to time appropriate for us.

(e) General

The exercise in full of the Repurchase Mandate, on the basis of 1,500,000,000 Shares in issue immediately after the Listing, would result in up to 150,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part 16 of the Companies Ordinance

Our Company has established our principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance at Unit 02, 10th Floor, Beautiful Group Tower, 77 Connaught Road Central, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 April 2019. Ms. Wong, the joint company secretary of our Company, has been appointed as the agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

9. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

(a) a trademarks transfer agreement dated 15 August 2018 and entered into between Dalipal Group as assignor and Dalipal Pipe as assignee in relation to the transfer of 16 trademarks to Dalipal Pipe at nil consideration;

(b) a capital increase and equity transfer agreement dated 22 September 2018 entered into between Dalipal Group, Mr. Jia, Mr. Peng, Dalipal Pipe and Mulberry in relation to (i) the subscription by Mulberry for the registered capital of Dalipal Pipe of RMB4,514,733 (representing approximately 2.9% of the enlarged equity interest of Dalipal Pipe) at the cash consideration of RMB21,902,168; and (ii) the acquisition by Mulberry from Mr. Peng his approximately 0.1% equity interest in Dalipal Pipe at the cash consideration of RMB732,535;

(c) an equity transfer agreement dated 27 October 2018 entered into between Dalipal Group, Dalipal Pipe, Mulberry, Mr. Peng and Mr. Jia for (i) the acquisition by Dalipal Group from Mulberry the registered capital in Dalipal Pipe subscribed for and acquired by Mulberry under the capital increase and equity transfer agreement as referred to in sub-paragraph (b) above by taking up the payment obligations of Mulberry thereunder; and (ii) the acquisition by Dalipal Group from Mr. Jia his approximately 3.32% equity interest in Dalipal Pipe at the cash consideration of RMB25,039,100;

(d) a sino-foreign equity joint venture agreement of Xuanxiang Pipe dated 3 November 2018 entered into between Dalipal Group and Orbital in relation to the establishment and joint investment by the parties in Xuanxiang Pipe, with an initial registered capital of RMB200.0 million, as to RMB194.0 million (being 97% thereof) to be contributed by Dalipal Group by transferring its 100% equity interest in Dalipal Pipe to Xuanxing Pipe, and as to RMB6.0 million (being 3% thereof) to be contributed by Orbital in cash, as amended by (i) a supplemental sino-foreign equity joint venture agreement of Xuanxiang Pipe dated 30 November 2018 entered into between Dalipal Group and Orbital substituting Shengjie Pipe and Orbital as joint venture parties in lieu of Dalipal Group and Orbital; and (ii) a supplemental sino-foreign equity joint venture agreement of Xuanxiang Pipe dated 15 December 2018 entered into between Shengjie Pipe and Complete Glory substituting Shengjie Pipe and Complete Glory as joint venture parties in lieu of Shengjie Pipe and Orbital;

(e) a capital increase agreement dated 19 November 2018 entered into between Dalipal Industrial, Shengjie Pipe and Dalipal Group for the subscription by Dalipal Group for registered capital of Shengjie Pipe of RMB101,000 (representing approximately 1.0% of the enlarged equity interest of Shengjie Pipe), in consideration and in exchange for Dalipal Group transferring its 97.0% equity interest in Xuanxiang Pipe to Shengjie Pipe referred to in sub-paragraph (f) below;

(f) an equity transfer agreement dated 30 November 2018 entered into between Dalipal Group, Xuanxiang Pipe and Shengjie Pipe for the transfer by Dalipal Group of its 97% equity interest in Xuanxiang Pipe to Shengjie Pipe referred to in sub-paragraph (e) above;

(g) an equity transfer agreement dated 15 December 2018 entered into between Complete Glory, Xuanxiang Pipe and Orbital for the transfer by Orbital of its 3% equity interest in Xuanxiang Pipe to Complete Glory at the cash consideration of RMB6.0 million;

(h) a subscription agreement dated 9 January 2019 entered into between Mr. Yau and our Company in relation to the subscription by Mr. Yau for 30,000 Shares (representing 3.0% of the issued share capital of our Company immediately upon completion as enlarged by the issue of such Shares) at a consideration of RMB22,634,703, which is settled (1) as to RMB16,634,703 in cash; and (2) as to RMB6.0 million by Mr. Yau transferring the entire issued share capital in Beauty Bright and assigning the RMB6.0 million unsecured non-interest bearing loans then outstanding as at the completion date made by Mr. Yau to Beauty Bright, to our Company upon completion;

(i) a loan assignment dated 9 January 2019 entered into between (i) Mr. Yau; (ii) our Company; and (iii) Beauty Bright in relation to the assignment by Mr. Yau to our Company of the RMB6.0 million unsecured non-interest bearing loans then outstanding as at the completion date made by Mr. Yau to Beauty Bright as part of the consideration for the subscription by Mr. Yau of 30,000 Shares (representing 3.0% of the issued share capital of our Company immediately upon completion as enlarged by the issue of such Shares) as referred to in sub-paragraph (h) above;

(j) a deed of indemnity dated 8 October 2019 executed by our Controlling Shareholders with and in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed "18. Estate Duty, Tax and Other Indemnity" of this Appendix; and

(k) the Hong Kong Underwriting Agreement.

10. Material properties of our Group

As of the Latest Practicable Date, our Group had the following material properties, details of which are set out below:

	Address and description of location	Main usage	(1) Total site area of land (2) Total gross floor area of buildings *(approximate sq.m.)*	Restrictions on use	(1) Type of ownership (2) Term of land use rights *(approximate sq.m.)*	Details of encumbrances, liens, pledges and mortgages
1	An industrial complex located at Gongnong Road, Xinhua District, Cangzhou, Hebei Province, PRC This property is located in an industrial area.	Production use	1. 78,938.3 2. 35,148.4	Only for industrial use	(1) Owned by our Group (2) 12 July 2006 — 23 February 2054 (in respect of 13,880.5 sq. m.) 12 July 2006 — 18 September 2053 (in respect of 65,057.8 sq. m.)	In respect of approximately 34,601.3 sq.m. of the total gross floor area of the buildings is subject to mortgages to bank
2	An industrial complex located at North of Yongji Road, Gaoxin District, Cangzhou, Hebei Province, PRC This property is located in an industrial area.	Production use	1. 171,272.2 2. 71,093.8	Only for industrial use	(1) Owned by our Group (2) 2 September 2014 — 22 February 2055 (in respect of 107,764.2 sq. m.) 29 May 2017 — 22 February 2055 (in respect of 63,508.0 sq. m.)	Mortgage to a bank
3	An industrial complex located at North of Nanshugang Road, Bohai New District, Cangzhou, Hebei Province, PRC This property is located in an industrial area.	Production use	1. 994,886.9 2. 250,536.21	Only for industrial use	(1) Owned by our Group (2) 4 May 2018 — 15 April 2068 (in respect of 202,708.3 sq. m.) 11 November 2011 — 27 July 2060 (in respect of 301,840.7 sq. m.) 30 November 2011 — 13 September 2059 (in respect of 490,337.9 sq. m.)	In respect of approximately 116,440.8 sq.m. of the total gross floor area of the buildings is subject to mortgages to bank

Save as disclosed in the sections headed "Business — Properties — Lack of building ownership certificates" and "Business — Non-Compliance", there were no investigations, notices, pending litigation, breaches of law or title defects in relation to our above material properties.

11. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group was the registered owner and beneficial owner of the following trademarks which is material in relation to our Group's business:

	Trademark	Registered owner	Place of registration	Class	Registration number	Duration of validity
1.		Dalipal Pipe	Hong Kong	6, 7, 35, 36, 37, 39, 43 *(Notes 1–7)*	304557736	8 June 2018 to 7 June 2028
2.	达力普 DALIPAL	Dalipal Pipe	Hong Kong	6, 7, 35, 36, 37, 39, 43 *(Notes 1–7)*	304557727	8 June 2018 to 7 June 2028
3.		Dalipal Pipe	PRC	6 *(Note 8)*	5074847	27 December 2028
4.	达力普 DALIPAL	Dalipal Pipe	PRC	6 *(Note 8)*	5112842	20 March 2029
5.	达力普 DALIPAL	Dalipal Pipe	PRC	7 *(Note 9)*	5112896	20 March 2029
6.	达力普 DALIPAL	Dalipal Pipe	PRC	37 *(Note 10)*	5112895	6 August 2029
7.		Dalipal Pipe	PRC	7 *(Note 11)*	6167603	6 January 2020
8.		Dalipal Pipe	PRC	37 *(Note 10)*	6167610	13 March 2022

Notes:

(1) The specific products under class 6 in respect of which the trademark was applied for registration are common metals alloys; metal materials for building and construction; metal materials for railway; non-electric cables and wires; small items of metal hardware; metal pipes; safes; metal containers; safes; iron ores.

(2) The specific products under class 7 in respect of which the trademark was applied for registration are rigs; machines for mining operation; geological exploration; machine and equipment for mining and selection of mining sites; drilling devices (floating or non-floating); oil rig; petrochemical equipment; equipment for oil exploitation and oil refining industrial use; mechanical processing devices; specialised oil pumps; centrifuge.

(3) The specific products under class 35 in respect of which the trademark was applied for registration are product display; advertising; commercial window decoration; product display on communication media for retail purpose; online advertising on network; assistance on business management; franchised business management; outsourcing services (business assistance); hotel business management; organisation of commercial or advertising trade meeting.

(4) The specific products under class 36 in respect of which the trademark was applied for registration are capital investment; fund investment; financial services; financial management; issuance of securities; lease of real estate; management of real estate; guarantee; trust; trustee management.

(5) The specific products under class 37 in respect of which the trademark was applied for registration are construction; demolition of buildings; installation and maintenance of pipes; paving; mining; drilling; digging of well; installation, maintenance and repairing of machines; installation and maintenance of electrical equipment; maintenance and repairing of vehicles.

(6) The specific products under class 39 in respect of which the trademark was applied for registration are transport; vehicle transport; railway transport; lease of garage; car parking services; vehicle leasing; storage of goods; railway transport; warehouse; lease of warehouse.

(7) The specific products under class 43 in respect of which the trademark was applied for registration are residences (hostel, boarding house); café; self-service restaurant; restaurant; reservation of hostel; fast-food restaurant; bar; teahouse; lease of conference room.

(8) The specific products under class 6 in respect of which the trademark was applied for registration are ordinary metal alloy, metallic building material, movable metal structure, railway metal material, non-electrical metal cable, metallic equipment, metallic pipe, safe, metallic container and iron ore.

(9) The specific products under class 7 in respect of which the trademark was applied for registration are rig, mining machine, geotechnical investigation, mining beneficiation machine, drilling device (floating or non-floating), oil rig, petrochemical equipment, oil exploitation, petroleum refining machine, machine processing device, oil pump and centrifuge.

(10) The specific products under class 37 in respect of which the trademark was applied for registration are structure, demolition, pipe laying and maintenance, paving, mining, drilling, well opening, machine installation, repair and maintenance, installation and repair of electrical device and vehicle repair and maintenance.

(11) The specific products under class 7 in respect of which the trademark was applied for registration are rig, mining machine, geotechnical investigation, mining beneficiation machine, drilling device (floating or non-floating), oil rig, petrochemical equipment, oil exploitation, petroleum refining machine, renovation machine (machine processing device), oil pump and centrifuge.

(b) Patents

As of the Latest Practicable Date, our Group had the following registered patents which are material in relation to our Group's business:

	Patent	Registered owner	Place of registration	Type	Registration number	Application date	Duration of validity (No. of years as from the application date)
1.	A gas well casing sealing connection structure (一種氣井套管密封連接結構)	Dalipal Pipe	PRC	Patent for invention	ZL201410844767.2	31 December 2014	20
2.	Anti-hydrogen sulfide corrosion oil casing and its manufacturing method (抗硫化氫腐蝕油套管及其製造方法)	Dalipal Pipe	PRC	Patent for invention	ZL201610490248.X	29 June 2016	20
3.	A special threaded joint of oil casing for high temperature and high pressure gas well (一種高溫高壓氣井用油套管特殊螺紋接頭)	Dalipal Pipe	PRC	Patent for utility model	ZL201621166014.1	2 November 2016	10
4.	Oil casing gas seal threaded joint (一種石油套管氣密封螺紋接頭)	Dalipal Pipe	PRC	Patent for utility model	ZL201721316730.8	13 October 2017	10
5.	An economical airtight threaded joint (一種經濟型氣密封螺紋接頭)	Dalipal Pipe	PRC	Patent for utility model	ZL201721316756.2	13 October 2017	10
6.	Seamless line pipe with yield strength of 350 MPa and its preparation method (一種屈服強度350 MPa級無縫管線管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	ZL201510318285.8	11 June 2015	20
7.	An economical L485Q seamless line pipe and its preparation method (一種經濟型L485Q無縫管線管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	ZL201510429527.0	21 July 2015	20

	Patent	Registered owner	Place of registration	Type	Registration number	Application date	Duration of validity (No. of years as from the application date)
8.	High-strength anti-hydrogen sulfide corrosion seamless line pipe and its preparation method (高強度抗硫化氫腐蝕無縫管線管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	ZL201610544655.4	12 July 2016	20
9.	A toughened state X52 anti-hydrogen sulfide corrosion seamless line pipe and its preparation method (一種調質態X52抗硫化氫腐蝕無縫管線管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	ZL201610549035.X	13 July 2016	20
10.	A normalised X52 sulfur-resistant seamless line pipe and its preparation method (一種正火態X52抗硫無縫管線管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	ZL201710150631.5	14 March 2017	20
11.	Appropriate amount of carbon-based electricity consumption control oxygen arc furnace steelmaking method (適量配碳大用電量控制用氧電弧爐煉鋼法)	Dalipal Pipe	PRC	Patent for invention	ZL201410620903.X	7 November 2014	20
12.	A production method of anti-sulfur pipeline steel round billet for oil and gas gathering and transportation (一種油氣集輸用抗硫管線鋼圓坯的生產方法)	Dalipal Pipe	PRC	Patent for invention	ZL201510010582.6	9 January 2015	20
13.	A type of double-sided thread chaser (一種雙面螺紋梳刀)	Dalipal Pipe	PRC	Utility model patent	ZL201821217295.8	30 July 2018	10

As of the Latest Practicable Date, applications had been made by our Group for the registration of the following patents which are material in relation to our Group's business:

	Patent	Applicant	Place of application	Type	Application number	Application date
1.	An oil and gas well mining casing with complicated geological conditions and its preparation method (一種複雜地質條件油氣井開采用套管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	201711492421.0	30 December 2017
2	A L80–1 steel grade oil casing and its preparation method (一種L80–1鋼級石油套管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	201711404174.4	22 December 2017
3	A simple anti-torsion gas seal threaded joint (一種簡易型抗過扭氣密封螺紋接頭)	Dalipal Pipe	PRC	Patent for utility model	201821327499.7	17 August 2018
4.	A method for improving nitrogen recovery rate in vanadium-nitrogen microalloyed steel (一種提高釩氮微合金化鋼中氮回收率的方法)	Dalipal Pipe	PRC	Patent for invention	201810963077.7	22 August 2018
5.	A production method for controlling large inclusions in medium carbon manganese steel continuous casting round billet (一種控制中碳錳鋼連鑄圓坯中大型夾雜物的生產方法)	Dalipal Pipe	PRC	Patent for invention	201810821808.4	24 July 2018
6.	Oil casing coupling production material transfer process (油套管接箍生產物料流轉工藝)	Dalipal Pipe	PRC	Patent for invention	201811252417.1	25 October 2018
7.	Non-tempered N80 steel grade oil casing and its preparation method (非調質N80鋼級石油套管及其製備方法)	Dalipal Pipe	PRC	Patent for invention	201811283856.9	31 October 2018

(c) Domain name

As of the Latest Practicable Date, our Group had registered the following domain name which is material in relation to our Group's business:

Domain name	Registered owner	Registration date	Expiry date
dalipal.com	Dalipal Pipe	1 December 2005	1 December 2019
dalipal.com.cn	Dalipal Pipe	1 December 2005	1 December 2019

12. Related party transactions

Save as disclosed in note 26 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

FURTHER INFORMATION ABOUT OUR DIRECTORS AND SHAREHOLDERS

13. Directors

(a) Disclosure of interests of directors

(i) Mr. Meng, Ms. Xu, Mr. YX Meng, Ms. Gan and Mr. Yin are interested in the Reorganisation.

(ii) Save as disclosed in the section headed "History, Reorganisation and Corporate Structure — Reorganisation", none of our Directors or their associates engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) Particulars of Directors' service contracts

Executive Directors

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 19 June 2019 which may be terminated by either party by giving not less than three months' written notice. The term of service contract shall be renewed and extended automatically for successive terms of one year upon expiry of the then current term until terminated by either party by giving not less than three months' written notice to the other.

During the term of the service contract, each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 1 January 2020 at the discretion of our Directors of not more than 10% of the average annual salary for the 12 months immediately prior to such increase).

In addition, during the term of the service contract, save for Mr. Meng who will not be entitled to discretionary management bonus, each of the other executive Directors is also entitled to a discretionary management bonus in such sum as the Board may in its absolute discretion determine provided that the aggregate amount of bonuses payable to all the executive Directors for any financial year of our Company shall not exceed 1.0% of the audited consolidated or combined net profit attributable to the Shareholders (after taxation and minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of the Directors regarding the amount of management bonus payable to him.

The current basic annual salaries of the executive Directors payable under their service contracts are as follows:

Name	Annual salary
	(HK$)
Mr. Meng	300,000
Ms. Xu	300,000
Mr. YX Meng	300,000
Ms. Gan	300,000
Mr. Yin	300,000

As at the Latest Practicable Date, Mr. Meng, Ms. Xu, Mr. YX Meng, Ms. Gan and Mr. Yin have also entered into an employment contract with Dalipal Pipe, an indirect subsidiary of our Company in the PRC, for a term commencing from 27 July 2004, 1 January 2018, 1 July 2017, 1 January 2018 and 1 September 2016, respectively, and will continue thereafter until terminated by either party by giving not less than 30 days written notice. Pursuant to the respective employment contracts entered into by each of Mr. Meng, Ms. Xu, Mr. YX Meng, Ms. Gan and Mr. Yin and Dalipal Pipe, their salary is to be determined by Dalipal Pipe based on, among others, its remuneration policy and/or the position held from time to time.

Non-executive Director and independent non-executive Directors

The non-executive Director and each of the independent non-executive Directors has been appointed for an initial term of three years commencing from 19 June 2019 which may be terminated by either party by giving not less than three months' written notice. The term of appointment shall be renewed and extended automatically for successive terms of two years upon expiry of the then current term until terminated by either party giving not less than three months' written notice to the other. The appointments are subject to the provisions of the Articles of Association with regard to vacation of office of Directors, removal and retirement by rotation of Directors. The non-executive Director will not receive any remuneration for holding his office as a non-executive Director but will be reimbursed with out-of-pocket expenses in connection with the attendance of board meeting of our Company. Each of the independent non-executive Directors is entitled to a director's fee of HK$300,000 per annum with effect from the Listing Date. Save for directors' fees (as the case may be), none of the non-executive Director or the independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or independent non-executive Director, respectively.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) Remuneration of Directors

(i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of FY2016, FY2017, FY2018 and 6M2019 were approximately RMB1.1 million, RMB1.9 million, RMB3.4 million and RMB1.4 million, respectively.

(ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2019, are expected to be approximately RMB5.3 million.

(iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of FY2016, FY2017, FY2018 and 6M2019 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

(iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the years ended FY2016, FY2017, FY2018 and 6M2019.

(d) Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering

Immediately following completion of the Global Offering and Capitalisation Issue and taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company or our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are 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 referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by

Directors of Listed Issuers contained in the Listing Rules, once the Shares are listed, will be as follows:

Name of Director/ Chief executive of our Company	Name of Group member/associated corporation	Capacity/Nature of interest	Number and class of securities/ amount of registered capital *(Note 1)*	Approximate percentage of shareholding
Mr. Meng	Our Company	Interest of a controlled corporation *(Note 2)*	706,353,600 Shares (L)	47.1%
	Shengjie Pipe	Interest of a controlled corporation *(Note 3)*	RMB101,000	1.0%
Mr. Zhang	Our Company	Beneficial owner	15,000,000 Shares (L)	1.0% *(Note 4)*
Ms. Gan	Our Company	Beneficial owner	12,000,000 Shares (L)	0.8% *(Note 5)*
Mr. Bai	Our Company	Beneficial owner	15,000,000 Shares (L)	1.0% *(Note 6)*

Notes:

1. The letter "L" denotes our Directors' long position in the shares of our Company or the relevant associated corporation.

2. These 706,353,600 Shares are held by Rosy Astral (which is owned as to approximately 80.6% by Mr. Meng). By virtue of the SFO, Mr. Meng is taken to be interested in the Shares held by Rosy Astral.

3. The registered capital for the sum of RMB101,000 in Shengjie Pipe is held by Dalipal Group (which is owned as to approximately 50.7% by Mr. Meng). By virtue of the SFO, Mr. Meng is taken to be interested in the registered capital of Shengjie Pipe held by Dalipal Group.

4. These Shares represent the underlying Shares comprised in the options granted to and held by Mr. Zhang pursuant to the Pre-IPO Share Option Scheme. The percentage of shareholding is calculated based on 1,500,000,000 Shares in issue immediately upon completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be allotted and issued pursuant to the Over-allotment Option and the options which may be granted under the Share Option Scheme) and as enlarged by the 45,000,000 Shares to be issued upon exercise of all the options granted under the Pre-IPO Share Option Scheme in full.

5. These Shares represent the underlying Shares comprised in the options granted to and held by Ms. Gan pursuant to the Pre-IPO Share Option Scheme. The percentage of shareholding is calculated based on 1,500,000,000 Shares in issue immediately upon completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be allotted and issued pursuant to the Over-allotment Option and the options which may be granted under the Share Option Scheme) and as enlarged by the 45,000,000 Shares to be issued upon exercise of all the options granted under the Pre-IPO Share Option Scheme in full.

6. These Shares represent the underlying Shares comprised in the options granted to and held by Mr. Bai pursuant to the Pre-IPO Share Option Scheme. The percentage of shareholding is calculated based on 1,500,000,000 Shares in issue immediately upon completion of the Global Offering and Capitalisation Issue (but taking no account of any Shares which may be allotted and issued pursuant to the Over-allotment Option and the options which may be granted under the Share Option Scheme) and as enlarged by the 45,000,000 Shares to be issued upon exercise of all options granted under the Pre-IPO Share Option Scheme in full.

14. Interest discloseable under the SFO and substantial shareholders

So far as is known to the Directors, immediately following completion of the Global Offering and Capitalisation Issue (but without taking account of any Shares which may be taken up or acquired under the Global Offering and any Shares which may be allotted, and issued upon the exercise of the Over-allotment Option and the options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed "Interests and short positions of our Directors and the chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations following the Global Offering" above, the following persons will have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholders	Capacity/nature of interest	Number and class of securities *(Note 1)*	Approximate percentage of shareholding
Rosy Astral	Beneficial owner	706,353,600 Shares (L)	47.1%
Ms. Luo Yumei	Interest of spouse *(Note 2)*	706,353,600 Shares (L)	47.1%
Polaris Swift	Beneficial owner	417,822,000 Shares (L)	27.9%

Notes:

1. The letter "L" denotes the shareholder's long position in the Shares.

2. Ms. Luo Yumei is the spouse of Mr. Meng. Under the SFO, Ms. Luo Yumei is taken to be interested in the same number of Shares in which Mr. Meng is interested.

15. Disclaimers

Save as disclosed in this appendix and the sections headed "History, Reorganisation and Corporate Structure" and "Underwriting":

(a) and taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option and any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of our Company) who immediately following the completion of the Global Offering and Capitalisation Issue will have an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will, either directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of us;

(b) none of the Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is 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 referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;

(c) none of the Directors nor any of the parties listed in the paragraph 24 below has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Company, or are proposed to be acquired or disposed of by or leased to our Company or any other member of us nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;

(d) none of the Directors nor any of the parties listed in the paragraph 24 below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of us; and

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph 24 below:

   (i) is interested legally or beneficially in any securities of any member of us; or

   (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of us.

OTHER INFORMATION

16. Pre-IPO Share Option Scheme

(a) Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to recognise and reward the contribution of certain directors and senior management of our Group to the growth and development of our Group and the listing of the Shares on the Main Board. The principal terms of the Pre-IPO Share Option Scheme adopted by a resolution in writing passed by all Shareholders on 19 June 2019 are similar to the terms of the Share Option Scheme except that:

(i) the classes of eligible participants are different from that provided in paragraph 17 (a)(ii);

(ii) the subscription price for Shares under the Pre-IPO Share Option Scheme is determined at the discretion of the Directors and is not required to be subject to the restrictions under Chapter 17 of the Listing Rules;

(iii) the general scheme limit, the individual limit applicable to each proposed grantee and the restrictions on grant of options to a connected person as referred to in paragraphs 17(a)(iii)(bb), 17(a)(iv) and 17(a)(v), respectively, do not apply;

(iv) the rules of the Pre-IPO Share Option Scheme were adopted unconditionally by a resolution in writing passed by all Shareholders on 19 June 2019, but the exercise of any option granted thereunder is conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme within 30 days after the date of this prospectus, failing which such options granted and the Pre-IPO Share Option Scheme shall forthwith lapse, and the exercise period of options granted may not commence earlier than the first day immediately following the expiry of six months after the Listing Date;

(v) the Directors may only grant options under the Pre-IPO Share Option Scheme at any time within a period commencing from 19 June 2019 and ending on the Latest Practicable Date;

(vi) 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;

(vii) in the event of a capitalisation of profits or reserves, rights issue, sub-division or consolidation of Shares or reduction of capital of our Company while an option remains exercisable or the Pre-IPO Share Option Scheme remains in effect, the number or nominal amount of Shares to which the Pre-IPO Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option granted under the Pre-IPO Share Option Scheme is subject to adjustments on terms similar to that of the Share Option Scheme as referred to in paragraph 17(a)(xix) below, except that the requirement for a written confirmation from the auditors or independent financial advisor to the Directors that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules as stated in paragraph 17(a)(xix) is not applicable to the Pre-IPO Share Option Scheme and options granted thereunder.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the 45,000,000 Shares to be allotted and issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

On 8 October 2019, options to subscribe for an aggregate of 45,000,000 Shares at 30% of the final Offer Price were granted by us to two Directors and two senior management under the Pre-IPO Share Option Scheme and all of these options were outstanding as of the Latest Practicable Date. Such options, if exercised in full, will represent 3.0% of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, but without taking into account any Shares which may fall to be allotted and issued upon the exercise of the Over-allotment Option and any options which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme. A nominal consideration of HK$1 had been paid by each grantee on acceptance of the options so granted. The options so granted are personal to the relevant grantees and shall not be transferable or assignable. The Directors confirm that no further option has been or will be granted under the Pre-IPO Share Option Scheme after the Latest Practicable Date.

(b) Outstanding options granted under the Pre-IPO Share Option Scheme

Detailed terms of the options which have been granted under the Pre-IPO Share Option Scheme and which remained outstanding as of the Latest Practicable Date are set out below:

Name of grantee *(Note 1)*	Position	Residential address	Number of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options in full *(Note 2)*	Approximate percentage of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme
Mr. Zhang Hongyao	Non-executive Director and vice-chairman of our Board	FH45, Room 702 No. 18, Lane 199 Biyun Road Pudong New Area Shanghai PRC	15,000,000	1.0%

Name of grantee (Note 1)	Position	Residential address	Number of underlying Shares to be issued upon the exercise of the Pre-IPO Share Options in full (Note 2)	Approximate percentage of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue without taking into account any Shares that may be issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme
Ms. Gan Shuya	Executive Director and chief operational officer of our Group	Room 901, Unit 2 District A 2 Huangjia Yili Yunhe District Cangzhou City Hebei Province PRC	12,000,000	0.8%
Mr. Bai Gongli	Chief executive officer of our Group	Room 303, Unit 1 8 Yujing Guoji Yunhe District Cangzhou City Hebei Province PRC	15,000,000	1.0%
Ms. Wong Gianne	Finance and investor relations director of our Group and joint Company secretary of our Company	59A Star Tower The Arch 1 Austin Road Kowloon Hong Kong	3,000,000	0.2%
Total:			45,000,000	3.0%

Notes:

1. Each grantee has undertaken to us that he/she will comply with all applicable laws, legislations and regulations (including all applicable exchange control, fiscal and other laws to which he/she is subject) in connection with the acceptance of the grant of his/her options, the holding and exercise of his/her options in accordance with the rules of the Pre-IPO Share Option Scheme, the allotment and issue of Shares to him/her upon exercise of his/her options and the holding of such Shares.

2. The exercise price of option for each Share under the Pre-IPO Share Option Scheme is 30% of the final Offer Price.

Vesting date, validity period and vesting conditions of the Pre-IPO Share Options

	Vesting date and validity period	Vesting conditions
(i) In respect of the Pre-IPO Share Options granted to each of Mr. Zhang, Ms. Gan and Mr. Bai:	The Pre-IPO Share Options shall be valid for a term of six years (as for Mr. Zhang, seven years) from the Listing Date ("**Exercise Period**"), which shall be vested on the following date and shall be exercisable as follows: (a) subject to the vesting condition as mentioned below being fully or partly satisfied, up to one-fifth of the Pre-IPO Share Options will be vested on the business day immediately after the first anniversary of the Listing Date (as for Mr. Zhang, the second anniversary of the Listing Date) ("**First Vesting Date**"), which will be exercisable during the period commencing on the First Vesting Date and expiring on the expiry of the Exercise Period; (b) subject to the vesting condition as mentioned below being fully or partly satisfied, save for the Pre-IPO Share Options already vested under (i)(a) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the business day immediately after the second anniversary of the Listing Date (as for Mr. Zhang, the third anniversary of the Listing Date) ("**Second Vesting Date**"), which will be exercisable during the period commencing on the Second Vesting Date and expiring on the expiry of the Exercise Period;	Vesting of Pre-IPO Share Options on a particular vesting date as set out above is conditional upon the performance targets as set out in both paragraphs (i) and (ii) below being satisfied: (i) Our Company achieves a return on assets ratio (calculated by the audited consolidated profit and total comprehensive income for the year (excluding any gain or profit attributable to any compensation and/or other incentive payments by the relevant PRC government authorities to our Group in connection with the relocation of, and the related resumption of lands and buildings of, our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse as absolutely and conclusively determined by the audit committee of the Board) divided by our net asset value for the year and multiplied by 100%) of 20% or above for the financial year immediately preceding the relevant vesting date; and (ii) Our Company's (i) audited consolidated profit and total comprehensive income for the financial year immediately preceding the relevant vesting date (excluding any gain or profit attributable to any compensation and/or other incentive payments by the relevant PRC government authorities to our Group in connection with the relocation of, and the related resumption of lands and buildings of, our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse are situated as absolutely and conclusively determined by the audit committee of the Board) as compared to (ii) our Company's audited consolidated profit and total comprehensive income for the financial year immediately preceding the financial year as set out in (i) (excluding any gain or profit attributable to any compensation and/or other incentive payments by the relevant PRC government authorities to our Group in connection with the relocation of, and the related resumption of lands and buildings of, our Gaoxin District Factory, Xinhua District Factory and Xinhua District Warehouse are situated as absolutely and conclusively determined by the audit committee of the Board) achieves a growth rate of 20% or above. If either the assets ratio or the profit growth rate of the Company for the relevant financial year fails to meet the prescribed target, 50% of the Pre-IPO Share Options granted which are expected to vest in the relevant grantee(s) on the relevant vesting date shall become vested in the relevant grantee(s) on that date. If both the assets ratio and the profit growth rate of the Company for the relevant financial year meet the prescribed targets, 100% of the Pre-IPO Share Options granted which are expected to vest in the relevant grantee(s) on the relevant vesting date shall become vested accordingly. However, if both the assets ratio and the profit growth rate of the Company for the relevant financial year fall below the prescribed targets, all the Pre-IPO Share Options granted which are expected to vest in the relevant grantee(s) on the relevant vesting date shall automatically lapse on that date.

Vesting date and validity period	Vesting conditions
(c) subject to the vesting condition as mentioned below being fully or partly satisfied, save for the Pre-IPO Share Options already vested under (i)(a) and/or (i)(b) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the business day immediately after the third anniversary of the Listing Date (as for Mr. Zhang, the fourth anniversary of the Listing Date) ("**Third Vesting Date**"), which will be exercisable during the period commencing on the Third Vesting Date and expiring on the expiry of the Exercise Period;	In respect of Mr. Zhang, in addition to the above vesting conditions, vesting of his Pre-IPO Share Options on a particular vesting date is also conditional upon the fact that he is an eligible employee (as defined in the Pre-IPO Share Option Scheme) on the relevant vesting date. If Mr. Zhang is not an eligible employee on the relevant vesting date, all the Pre-IPO Share Options granted which are expected to vest on him on the relevant vesting date shall automatically lapse on that date.
(d) subject to the vesting condition as mentioned below being fully or partly satisfied, save for the Pre-IPO Share Options already vested under (i)(a), (i)(b) and/or (i)(c) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the business day immediately after the fourth anniversary of the Listing Date (as for Mr. Zhang, the fifth anniversary of the Listing Date) ("**Fourth Vesting Date**"), which will be exercisable during the period commencing on the Fourth Vesting Date and expiring on the expiry of the Exercise Period; and	

		Vesting date and validity period	Vesting conditions
		(e) subject to the vesting condition as mentioned below being fully or partly satisfied, save for the Pre-IPO Share Options already vested under (i)(a), (i)(b), (i)(c) and/ or (i)(d) above (if any), all outstanding Pre-IPO Share Options will be vested on the business day immediately after the fifth anniversary of the Listing Date (as for Mr. Zhang, the sixth anniversary of the Listing Date) ("**Final Vesting Date**"), which will be exercisable during the period commencing on the Final Vesting Date and expiring on the expiry of the Exercise Period.	
(ii)	In respect of the Pre-IPO Share Options granted to Ms. Wong:	The Pre-IPO Share Options shall be valid during the Exercise Period, which shall be vested on the following date and shall be exercisable as follows: (a) up to one-fifth of the Pre-IPO Share Options will be vested on the First Vesting Date, which will be exercisable during the period commencing on the First Vesting Date and expiring on the expiry of the Exercise Period; (b) save for the Pre-IPO Share Options already vested under (ii)(a) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the Second Vesting Date, which will be exercisable during the period commencing on the Second Vesting Date and expiring on the expiry of the Exercise Period;	None

Vesting date and validity period	Vesting conditions
(c) save for the Pre-IPO Share Options already vested under (ii)(a) and/or (ii)(b) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the Third Vesting Date, which will be exercisable during the period commencing on the Third Vesting Date and expiring on the expiry of the Exercise Period;	
(d) save for the Pre-IPO Share Options already vested under (ii)(a), (ii)(b) and/or (ii)(c) above (if any), up to an additional of one-fifth of the Pre-IPO Share Options will be vested on the Fourth Vesting Date, which will be exercisable during the period commencing on the Fourth Vesting Date and expiring on the expiry of the Exercise Period; and	
(e) save for the Pre-IPO Share Options already vested under (ii)(a), (ii)(b), (ii)(c) and/or (ii)(d) above (if any), all outstanding Pre-IPO Share Options will be vested on the Final Vesting Date, which will be exercisable during the period commencing on the Final Vesting Date and expiring on the expiry of the Exercise Period.	

Dilution effect on earnings per Share and shareholdings of our Shareholders

As of the Latest Practicable Date, all of the Pre-IPO Share Options had not been exercised and remained outstanding. Assuming full vesting and exercise of the outstanding Pre-IPO Share Options, the shareholding percentage of our Shareholders immediately following the Listing would be diluted by approximately 2.9% as calculated based on 1,545,000,000 Shares then in issue (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme) and the dilution effect on our earnings per Share would be approximately 2.9%. In addition, we are required to recognise share-based compensation as expenses.

We estimate that the aggregated share-based compensation expenses will amount to approximately HK$53.9 million and such will be recognised in the seven years ending 31 December 2025.

The following table illustrates the potential dilution effect on the shareholding of our Company upon completion of the Global Offering and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised) in respect of the exercise of options granted under the Pre-IPO Share Option Scheme:

Shareholders$^{(Note)}$	**Shareholding structure immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalisation Issue but before the exercise of the options granted under the Pre-IPO Share Option Scheme**		**Shareholding structure immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) and the Capitalisation Issue and full exercise of the options granted under the Pre-IPO Share Option Scheme**	
	Shares	*%* *(approximate)*	*Shares*	*%* *(approximate)*
Rosy Astral	706,353,600	47.1	706,353,600	45.7
Polaris Swift	417,822,000	27.9	417,822,000	27.0
Glorious Year	39,824,400	2.6	39,824,400	2.6
Mr. Yau	36,000,000	2.4	36,000,000	2.3
Grantees under the Pre-IPO Share Option Scheme who are connected persons *(Note 2)*	—	—	42,000,000	2.7
Grantee under the Pre-IPO Share Option Scheme who are not connected person	—	—	3,000,000	0.2
Public Shareholders	300,000,000	20.0	300,000,000	19.5
Total	**1,500,000,000**	**100.0**	**1,545,000,000**	**100.0**

Notes:

1. Details of the Shareholders are described in the section headed "History, Reorganisation and Corporate Structure — Corporate Structure"

2. Grantees under the Pre-IPO Share Option Scheme who are connected persons include Mr. Zhang, being a non-executive Director, and Ms. Gan and Mr. Bai, being an executive Director and/or a chief executive officer and/or a director of certain of our subsidiaries.

We will not permit the exercise of any Pre-IPO Share Option by any of our connected persons if, upon such exercise, we would not be able to maintain the minimum public float requirement of the Stock Exchange.

17. Share Option Scheme

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by the then Shareholders on 19 June 2019:

(i) Purposes of the scheme

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, the Directors and other selected participants for their contributions to us. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of us so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Who may join

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity ("**Invested Entity**") in which any member of us holds an equity interest;

(bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;

(cc) any supplier of goods or services to any member of us or any Invested Entity;

(dd) any customer of any member of us or any Invested Entity;

(ee) any person or entity that provides research, development or other technological support to any member of us or any Invested Entity;

(ff) any shareholder of any member of us or any Invested Entity or any holder of any securities issued by any member of us or any Invested Entity;

(gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of us or any Invested Entity;

(hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of us;

and, for the purposes of the Share Option Scheme, the offer for the grant of option may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants.

For avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of us to any person who falls within any of the above classes of participants shall not, by itself, unless the Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to an offer for the grant of any option shall be determined by the Directors from time to time on the basis of the Directors' opinion as to his contribution to the development and growth of us.

(iii) Maximum number of the Shares

(aa) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by us must not in aggregate exceed 30% of the share capital of our Company in issue from time to time.

(bb) The total number of the Shares which may be allotted and issued upon the exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of us) to be granted under the Share Option Scheme and any other share option scheme of us must not in aggregate exceed 10% of the number of Shares in issue on the Listing Date, being 150,000,000 Shares ("**General Scheme Limit**").

(cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of us must not exceed 10% of the number of Shares in issue as at the date of approval of the limit and, for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of us) previously granted under the Share Option Scheme and any other share option scheme of us will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a generic description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon the exercise of the options granted under the Share Option Scheme and any other share option scheme of us (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the number of Shares in issue for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by the Shareholders in general meeting of our Company with such grantee and his close associates (or his associates if the grantee is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted must be fixed before the approval of the Shareholders and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) Grant of options to the Directors, chief executive or substantial shareholders of our Company or their respective associates

(aa) Any grant of options under the Share Option Scheme to a Director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

(bb) Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) 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 further grant of options must be approved by Shareholders in general meeting. Our Company must send a circular to the Shareholders, within such time as may be specified in the Listing Rules. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting (with such grantee, his associates and all core connected persons of our Company abstaining from voting in favour).

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence from the date of the offer for the grant of options is made, but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer for the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer for the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for the Shares and consideration for the option

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

(ix) Ranking of the Shares

The Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the reopening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been entered on the register of members of our Company as the holder thereof.

Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of the offer for the grant of options

No offer for grant of options shall be made after inside information has come to our Company's knowledge until we have announced the information. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and (bb) the deadline for our Company to publish an announcement of our results for any year, half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement, no offer for the grant of options may be made.

The Directors may not make any offer for the grant of option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and shall not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with us or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as the Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of a termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or us or the Invested Entity into disrepute), his option (to the extent not already exercised) will lapse automatically on the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and us or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of us by reason of the cessation of its relations with us or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above, his option will lapse automatically on the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date which such offer (or, as the case may be, revised offer) closed or the relevant date for entitlements under such scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolutions to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by eligible participants

If the grantee is a company wholly owned by one or more eligible participants:

(aa) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and

(bb) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that the Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company while an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option or which remains comprised in an option, provided that (aa) any adjustments shall give a grantee the same proportion of the number of issued shares as that to which he was entitled prior to such alteration; (bb) the issue of Shares or other securities of us as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (cc) no alteration may be made to the extent that a Share would be issued at less than its nominal value; and (dd) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of the Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(aa) the expiry of the option period in respect of such option;

(bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and

(cc) the date on which the Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Miscellaneous

(aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.

(cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the shareholders of our Company in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

(v) Compliance with the Listing Rules

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

18. Estate duty, tax and other indemnity

The Controlling Shareholders (together, the "**Indemnifiers**") have entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries stated therein) to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing Date; and

(b) taxation, together with all reasonable costs (including all legal costs), fines, penalties, costs, charges, expenses and other liabilities which may be incurred by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Listing Date or any transaction or event entered into or occurring on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the Deed of Indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 June 2019;

(b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2019 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of any of the Indemnifiers, otherwise than any such act, omission or transaction:

   (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 July 2019; or

   (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2019 or pursuant to any statement of intention made in this prospectus; or

(c) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2019 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the laws, rules and regulations or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the taxation authority in the PRC, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation or taxation claim after the date of the Deed of Indemnity with retrospective effect.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses, fines, penalties and charges and of whatever nature suffered or incurred by any member of our Group directly or indirectly arising out of or in connection with the non-compliance or alleged non-compliance by any member of our Group with any applicable laws and regulations on or before the Listing Date.

Under the Deed of Indemnity, each of the Indemnifiers has also jointly and severally undertaken to us that he/it will indemnify and at all times keep each of the members of our Group fully indemnified on demand from any depletion in or reduction in value of its assets or any loss (including all legal costs and suspension of operation), cost, expenses, damages or other liabilities which any member of our Group may incur or suffer arising from or in connection with the implementation of the Reorganisation.

19. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

20. Preliminary expenses

The preliminary expenses of our Company were approximately HK$52,000 and has been paid by our Company.

21. Promoter

(a) Our Company does not have any promoter.

(b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

22. Agency fees or commissions received

For details of the agency fees or commissions to be received by the Underwriters and the discretionary incentive fees to be received by the Underwriters' Representative, please refer to the section headed "Underwriting — Commissions, fees and expenses".

23. The Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of the Over-allotment Option and any option which were granted or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

The sponsor's fees payable by us in respect of the Sole Sponsor's services as sponsor for the Listing is HK$6.0 million.

24. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

CMBC International Capital Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
KPMG	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Qualified PRC lawyers
Hogan Lovells	Legal adviser as to International Sanctions law
China Insights Consultancy	Industry consultant
APAC Asset Valuation and Consulting Limited	Professional property valuer

25. Consents of experts

Each of the experts as set out in paragraph 24 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal memorandum and/or legal opinion and/or opinion and/or confirmations and/or summary thereof and/or summary of valuations (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

26. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

27. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

28. Miscellaneous

(a) Save as disclosed in this appendix and in the sections headed "History, Reorganisation and Corporate Structure" and "Underwriting":

(i) within two years preceding the date of this prospectus:

(aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;

(ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2019 (being the date to which the latest audited consolidated financial statements of our Group were made up); and

(c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus.

29. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses for Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, among other documents:

(a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Appendix V — Statutory and General Information — Other Information — 25. Consents of experts"; and

(c) copies of the material contracts referred to in the paragraph headed "Appendix V — Statutory and General Information — Further Information About the Business of Our Group — 9. Summary of material contracts".

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum of Association and the Articles of Association;

(b) the Accountants' Report from KPMG, the text of which is set out in Appendix I to this prospectus;

(c) the consolidated audited financial statements of our Group for each of the years ended 31 December 2016, 2017 and 2018 and the six months ended 30 June 2019;

(d) the report from KPMG on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the letter, summary of valuations and valuation certificates prepared by APAC Asset Valuation and Consulting Limited relating to the property interests of our Group, the texts of which are set out in Appendix III to this prospectus;

(f) the Companies Law;

(g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;

(h) the legal opinions prepared by our PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;

(i) the legal memorandum issued by Hogan Lovells, legal advisers to the Company as to International Sanctions law;

(j) the material contracts referred to in the paragraph headed "Appendix V — Statutory and General Information — Further Information About the Business of Our Group — 9. Summary of material contracts";

(k) the service contracts and employment contracts referred to in the paragraph headed "Appendix V — Statutory and General Information — Further Information about Our Directors and Shareholders — 13. Directors — (b) Particulars of Directors' service contracts";

(l) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme;

(m) the written consents referred to in the paragraph headed "Appendix V — Statutory and General Information — Other Information — 25. Consents of experts"; and

(n) the industry report prepared by CIC, the extracts of which is set out in the section headed "Industry Overview".

達力普控股有限公司
DALIPAL HOLDINGS LIMITED