迈科管业控股有限公司

MAIKE TUBE INDUSTRY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1553

GLOBAL OFFERING

Sole Sponsor

富強金融資本
FORTUNE FINANCIAL CAPITAL

Sole Global Coordinator

富強證券
FORTUNE (HK) SECURITIES

Joint Bookrunners and Joint Lead Managers

富強證券 FORTUNE (HK) SECURITIES

利弗莫尔证券 Livermore Holdings Limited

中泰國際 ZHONGTAI INTERNATIONAL

第一上海 FIRST SHANGHAI GROUP

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

MAIKE TUBE INDUSTRY HOLDINGS LIMITED
(迈科管业控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	98,400,000 Shares
Number of Hong Kong Offer Shares	:	9,840,000 Shares (subject to reallocation)
Number of International Placing Shares	:	88,560,000 Shares (subject to reallocation)
Offer Price	:	Not more than HK$2.40 per Offer Share and expected to be not less than HK$1.86 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%)
Nominal Value	:	US$0.0001 per Share
Stock Code	:	1553

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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 paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date, which is expected to be on or around Monday, 9 December 2019 and in any event, not later than Thursday, 12 December 2019. If, for any reason, the Offer Price is not agreed by Thursday, 12 December 2019 (or such later date so agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

The Sole Global Coordinator (for itself and on behalf of the Underwriters), may, with our consent, reduce the number of Offer Shares being offered under the Hong Kong Public Offer 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 Offer. In such case, an announcement will be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.mechpipingtech.com** not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. Details of the arrangement will then be announced by us as soon as practicable. For further information, Please see "Structure and Conditions of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

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

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in "Underwriting — Hong Kong Public Offer — Grounds for termination". It is important that you refer to that section for further details.

29 November 2019

Our Company will publish an announcement on the websites of the Stock Exchange at ***www.hkexnews.hk*** *and our Company at* ***www.mechpipingtech.com*** *if there is any change in the following expected timetable in relation to the Hong Kong Public Offer.*

	2019 *(Note 1)*
Hong Kong Public Offer commences and **WHITE** and **YELLOW** Application Form available from	9:00 a.m. on Friday, 29 November
Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk** *(Note 3)*	11:30 a.m. on Monday, 9 December
Application lists open *(Note 2)*	11:45 a.m. on Monday, 9 December
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s).	12:00 noon on Monday, 9 December
Latest time to give **electronic application instructions** to HKSCC *(Note 4)*	12:00 noon on Monday, 9 December
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Monday, 9 December
Application lists close	12:00 noon on Monday, 9 December
Expected Price Determination Date *(Note 5)*	Monday, 9 December
Announcement of the final Offer Price, indication of the levels of interest in the International Placing, the basis of allotment and the results of applications in the Hong Kong Public Offer to be published on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.mechpipingtech.com** on or before	Tuesday, 17 December
Announcement of results of allocations in the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including our website at **www.mechpipingtech.com** and the website of the Stock Exchange at **www.hkex.com.hk** (for further details, please see "How to apply for the Hong Kong Offer Shares — 11. Publication of Results" in this prospectus) from	Tuesday, 17 December

	2019 *(Note 1)*
Results of allocations in the Hong Kong Public Offer will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID Number/Business Registration Number" function	Tuesday, 17 December
Despatch/Collection of White Form e-Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) and wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offer on or before *(Notes 6 to 8)*	Tuesday, 17 December
Despatch/Collection of Share certificate(s) on or before	Tuesday, 17 December
Dealings in the Shares on the Stock Exchange expected to commence at	9:00 a.m. on Wednesday, 18 December

The application for the Public Offer Shares will commence on Friday, 29 November 2019 through Monday, 9 December 2019, being longer than normal market practice of four days. The application monies (including the brokerages, SFC transaction levies and Stock Exchange trading fees) will be held by the receiving bank on behalf of our Company and the refund monies, if any, will returned to the applicants without interest on Tuesday, 17 December 2019. Investors should be aware that the dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, 18 December 2019.

Notes:

1. All times and dates refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in "Structure and Conditions of the Global Offering".

2. If there is/are a "**black**" rainstorm warning, a tropical cyclone warning signal number 8 or above and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 9 December 2019, the application lists will not open on that day. For details, please see "How to Apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists".

3. You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you 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.

4. Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to "How to apply for Hong Kong Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC".

5. The Price Determination Date is expected to be on or around Monday, 9 December 2019. If, for any reason, the Offer Price is not agreed on Thursday, 12 December 2019 between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse accordingly.

6. Share certificates for the Offer Shares are expected to be issued on or before Tuesday, 17 December 2019 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 18 December 2019 provided that (a) the Global Offering has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.

7. Applicants for 1,000,000 Hong Kong Offer Shares or more on **WHITE** Application Forms who have indicated in their Application Forms that they are eligible to collect their refund cheques (where relevant) and/or Share certificates (where relevant) personally may collect refund cheques (where relevant) and/or Share certificates (where relevant) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 December 2019 or any other day that we publish on the websites of the Stock Exchange at **www.hkexnews.hk** and our Company at **www.mechpipingtech.com** as the date of despatch of Share certificates/e-Refund payment instructions/refund cheques.

   Individuals who are eligible for personal collection must not authorise any other person(s) to make collection on their behalf. Corporate applicants which are eligible for personal collection must attend by their authorised representative(s) bearing a letter of authorisation from such corporation(s) 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 Share Registrar. Applicants for 1,000,000 Hong Kong Offer Shares or more on **YELLOW** Application Forms may collect their refund cheques, if any, in person but may not elect to collect their Share certificates personally, which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participants' stock accounts, as appropriated. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

   Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank account may have refund monies (if any) dispatched to their application payment bank account, in the form of e-Refund payment instructions; Applicants who apply through the **White Form eIPO** 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 to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

   Uncollected Share certificates and refund cheques (if any) will be despatched by ordinary post at the applicant's own risk to the address specified in the relevant Application Form. For further information, applicants should refer to "How to Apply for Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies".

8. Refund cheques/e-Refund payment instructions will be despatched in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK$2.40 per Offer Share.

   For details of the structure of the Global Offering, including conditions of the Global Offering, applicants should refer to "Structure and Conditions of the Global Offering".

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offer and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offer. 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. The Global Offering is made on the basis of the information contained in the representations made in this prospectus. 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 Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of our or their respective directors, officers, employees, advisers or agents or any other person or party involved in the Global Offering.

The contents of our Company's website at ***www.mechpipingtech.com*** *do not form part of this prospectus.*

Page

Page

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide 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 "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in "Definitions" and "Glossary of Technical Terms".

OVERVIEW

We are principally engaged in the manufacturing and selling of standard prefabricated pipe nipple products and steel pipe products. We pride ourselves on our capability to supply a variety of products in terms of length, outside diameter and surface finishing which cater for the varying needs of our customers and comply with international standards. Leveraging our industry experience, we are able to design and supply a variety of assembled piping systems to our customers to satisfy various physical and functional characteristics of our customers' designated sites. We also sell unused raw materials mainly include steel coils that were procured from our suppliers. As at the Latest Practicable Date, we operated two production plants located in Jinan, China with a total area of approximately 232,655 sq.m. and 80,334 sq.m., respectively. We also operated a production plant in Dong Nai Province, Vietnam with a total area of approximately 3,842 sq.m.. According to the Frost & Sullivan Report, we ranked first in the PRC standard prefabricated pipe nipple industry in terms of export value by tons with a market share of 7.1% in 2018; and accounted for 0.2% market share in the PRC steel pipes manufacturing industry in 2018. The following table sets out the breakdown of our revenue, gross profit and gross profit margin by products categories for the periods indicated:

	For the year ended 31 December												For the five months ended 31 May							
	2016				2017				2018				2018				2019			
	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
														(unaudited)						
Standard prefabricated pipe nipples	52,896	11.7	19,564	37.0	293,555	31.3	119,728	40.8	379,267	31.2	161,061	42.5	149,366	33.6	60,383	40.4	104,579	25.4	44,791	42.8
Steel pipes products																				
— ERW steel pipes	144,617	32.0	12,342	8.5	267,819	28.5	30,330	11.3	350,410	28.8	40,742	11.6	138,778	31.2	15,164	10.9	135,452	32.9	19,800	14.6
— SSAW steel pipes	189,048	41.8	41,033	21.7	249,737	26.6	45,763	18.3	292,183	24.1	50,356	17.2	100,309	22.5	13,652	13.6	74,798	18.2	14,423	19.3
— Customised steel pipes	60,399	13.3	6,904	11.4	114,816	12.3	18,178	15.8	131,589	10.8	23,527	17.9	47,034	10.6	6,800	14.5	70,467	17.1	13,614	19.3
Design and supply of assembled piping systems	—	—	—	—	2,826	0.3	685	24.2	10,774	0.9	3,174	29.5	2,121	0.5	457	21.6	3,156	0.8	816	25.9
Others																				
— Unused raw materials	5,323	1.2	44	0.8	9,416	1.0	65	0.7	50,616	4.2	292	0.6	7,220	1.6	44	0.6	22,962	5.6	200	0.9
Total	452,283	100.0	79,887	17.7	938,169	100.0	214,749	22.9	1,214,839	100.0	279,152	23.0	444,828	100.0	96,500	21.7	411,414	100.0	93,644	22.8

OUR BUSINESS MODEL

We manufacture standard prefabricated pipe nipple products and steel pipe products in accordance with different international standards in our production plants mainly in Jinan, Shandong Province, the PRC. Upon receiving customers' confirmation for our order, our sales and marketing team will discuss with our production team on the production of the standard prefabricated pipe nipple products and steel pipe products in order to ensure the products are manufactured according to the specific requirements or international standards set out in the contracts or purchase order with our customers. Depending on our then available resources and capacity, we also purchase pre-processed SSAW steel pipes from our suppliers to satisfy our orders. In cases where enquiries are related to assembled piping system which involve the design of assembled piping system to satisfy customised requirements and typical application scenarios of customers, our customers will provide us with the desired layout plan and/or specifications. Our customised steel pipes are all processed on the ERW steel pipes manufactured by us under customers' specific requirements. Our sales and marketing team and technical personnel also engage in the design process with our customers. We maintain an optimal inventory level for standard prefabricated pipe nipple products, ERW steel pipe products and SSAW steel pipe products. If there is enough inventory to satisfy the order, we will arrange delivery of our products to our customers' designated site in accordance with the delivery schedule. On the other hand, if we have insufficient inventory to satisfy the purchase orders, our production team will commence manufacturing of the requested standard prefabricated pipe nipple products or steel pipe products to make up for the shortfall. On the other hand, we do not keep customised steel pipe products or products for assembled piping system as inventory as the product specifications and the requirements under each order are different. The following table sets forth the breakdown of the sales volume and the ASP by product categories for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	Sales volume	ASP (Note 1)	Sales volume	ASP (Note 1)	Sales volume	ASP (Note 1)	Sales volume	ASP (Note 1)	Sales volume	ASP (Note 1)
	ton'000	*RMB/ton*	*ton'000*	*RMB/ton*	*ton'000*	*RMB/ton*	*ton'000*	*RMB/ton*	*ton'000*	*RMB/ton*
Standard prefabricated pipe nipples	4.7	11,220	23.6	12,433	24.9	15,209	11.0	13,627	6.7	15,619
Steel pipe products										
— ERW steel pipes	46.5	3,109	60.9	4,396	73.8	4,753	30.0	4,628	30.5	4,448
— SSAW steel pipes	66.0	2,863	63.9	3,908	65.7	4,447	22.6	4,434	17.4	4,297
— Customised steel pipes	17.3	3,484	25.1	4,566	25.6	5,148	9.3	5,051	14.4	4,882
Design and supply of assembled piping system (Note 2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Others	2.3	2,344	3.2	2,985	14.5	3,486	2.1	3,369	7.1	3,230

Notes:

1. The average selling price is derived by the revenue of the respective product divided by the sales volume, where applicable.

2. We price our design and supply of assembled piping system based on the nature of each individual project, taking into account the quantity, type and complexity of each project.

For the five months ended 31 May 2019, sales volume of standard prefabricated pipe nipples and SSAW steel pipes decreased by approximately 4,300 tons and 5,200 tons respectively. The decrease in sales volume of standard prefabricated pipe nipples for the five months ended 31 May 2019 as compared to that of the five months ended 31 May 2018 was primarily due to the decrease in demand from several major customers while the decrease in sales volume of SSAW steel pipes was mainly because several contracts with some of our major customers for the five months ended 31 May 2018 in the water and gas industry, which accounted for approximately 26.2% of our revenue generated from SSAW steel pipes for the five months ended 31 May 2018, with an aggregate sales volume of approximately 6,000 tons of SSAW steel pipes were completed by the second half of 2018.

For the five months ended 31 May 2019, ASP of ERW steel pipes, SSAW steel pipes and customised steel pipes slightly decreased by approximately 3.9%, 3.1% and 3.3% respectively. The decrease in ASP was mainly driven by the decrease in the average purchase price of steel coils.

IMPACT OF TRADE TENSION BETWEEN THE U.S. AND THE PRC ON OUR GROUP

For the five months ended 31 May 2019, our financial performance had been adversely affected by the trade tension between the U.S. and the PRC. Our revenue generated from the U.S. by destination of delivery had decreased from RMB92.6 million for the five months ended 31 May 2018 to RMB71.2 million for the same period in 2019, representing a drop of 23.1%. In order to minimise the impact of the tariff on our Group's product, our Group had taken and will continue to put in place a number of measures, including but not limited to (i) manufacturing products which are subject to U.S. tariff outside the PRC; (ii) cost reduction; (iii) price adjustment; (iv) continue to solidify our market shares in the domestic market; (v) strive to expand our product portfolio; and (vi) maintain disciplined financial strategy. For details of the measures, see "Business — Sales and Marketing — Tariff — Trade tension between the United States and the PRC".

It is noted that our standard prefabricated pipe nipple products and steel pipe products that were shipped to the United States during the Track Record Period and up to the Latest Practicable Date were among those products targeted by the United States tariff. Moreover, there has been continuing trade tension between the United States and the PRC. Since 2018, the United States government has imposed additional tariffs on top of the normal tariff rates on certain products imported from the PRC into the United States. The products which are subject to such additional tariffs are set out in the tariff lists published by the Office of the United States Trade Representative ("**USTR**"), of which the third list of tariff items ("**Section 301 List 3**") containing products including standard prefabricated pipe nipple products and steel pipes, came into effect on 24 September 2018, imposing an additional tariff of 10%. On 9 May 2019, the USTR announced an increase of the additional tariffs applicable to the products on Section 301 List 3 from 10% to 25%, effective 10 May 2019. Pursuant to statements from the president of the United States and the USTR, the additional tariffs on Section 301 List 3 were previously expected to increase to 30% effective on 1 October 2019 (although this tariff increase has been deferred in connection with bilateral negotiations between the United States and China). For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue derived from the United States by destinations of delivery amounted to approximately RMB3.9 million, RMB138.6 million, RMB247.5 million and RMB71.2 million, respectively, representing approximately 0.9%, 14.8%, 20.4% and 17.3% of our total revenue, respectively. As advised by our U.S. Trade Law Legal Adviser, all of our products which were imported into the United States are included in the Section 301 List 3. The increase in costs resulting from the additional tariffs are generally payable by our customers as our United States sales are on FOB, CFR or CIF basis. As a result of the above, our financial performance has been adversely affected by the tariffs on our products. To minimise the potential impact of the United States tariff on our business, we are planning to adopt the following strategies: (i) manufacture of products subject to U.S. tariff outside the PRC; (ii) cost reduction; (iii) price adjustment; (iv) continue to solidify our market shares in the domestic market; (v) strive to expand our product portfolio; and (vi) maintain disciplined financial strategy. For details, see “Business — trade tension between the United States and the PRC”.

OUR SALES AND CUSTOMERS

Our customers mainly include gas and HVAC companies, water supply companies, infrastructure and construction companies, wholesalers and distributors which on-sell our products to their own customers. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, our sales to our top five customers amounted to approximately RMB176.1 million, RMB363.2 million, RMB377.8 million and RMB117.8 million, respectively, representing approximately 38.9%, 38.7%, 31.1% and 28.7% of our total revenue, respectively, for the corresponding periods; and sales to our largest customer amounted to approximately RMB107.4 million, RMB132.1 million, RMB99.6 million and RMB52.6 million, respectively, representing approximately 23.8%, 14.1%, 8.2% and 12.8% of our total revenue, respectively, for the corresponding periods.

In order to extend our market coverage, we adopt different sales channels according to our marketing strategies and resources for our domestic and overseas markets:

Domestic market: During the Track Record Period, all of our SSAW steel pipe products, a significant portion of our ERW steel pipe products, and a small portion of our customised steel pipe products and standard prefabricated pipe nipple products, were sold in domestic market. Our sales channels for domestic market consisted of (i) direct sales; (ii) wholesaling; and (iii) distributorship. Regarding our direct sales and wholesaling, the terms and conditions are set out in our sales contracts or purchase orders. As to our distributorship, we enter into legally-binding distributorship agreements with our distributors in the PRC. We may enter into exclusive distributorship agreements with distributors who have proven track record pursuant to which, our distributors are restricted to serve customers within a designated area. We also receive tender invitation from our domestic customers. In general, upon receiving a tender invitation, we will make preliminary assessment of a potential tender.

Overseas markets: We sold most of our standard prefabricated pipe nipple products and customised steel pipe products and a small portion of ERW steel pipe products to overseas markets. Our sales channels for overseas markets consisted of (i) direct sales; and (ii) wholesaling. We did not adopt the distributorship model for overseas sales during the Track Record Period. Instead, the terms and conditions are set out in the sales contracts or purchase orders. We sold our products to wholesalers who either sell our products to end-customers or to further downstream resellers.

The following table shows the breakdown of our revenue, gross profit and gross profit margin by sales channels for the periods indicated:

	For the years ended 31 December												For the five months ended 31 May							
	2016				2017				2018				2018				2019			
	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin	Revenue		Gross profit	Gross profit margin
	RMB'000	*% of revenue*	*RMB'000*	*%*	*RMB'000*	*% of revenue*	*RMB'000*	*%*	*RMB'000*	*% of revenue*	*RMB'000*	*%*	*RMB'000*	*% of revenue*	*RMB'000*	*%*	*RMB'000*	*% of revenue*	*RMB'000*	*%*
														(unaudited)						
Domestic market																				
Direct sales	265,728	58.8	48,044	18.1	378,093	40.3	57,840	15.3	499,785	41.1	71,060	14.2	151,826	34.1	18,472	12.2	181,622	44.1	29,558	16.3
Distributorship	70,330	15.5	19,408	27.6	154,168	16.4	47,396	30.7	140,268	11.6	31,047	22.1	58,374	13.1	13,152	22.5	36,694	8.9	6,149	16.8
Wholesaling	28,849	6.4	2,550	8.8	44,557	4.8	5,474	12.3	15,493	1.3	2,290	14.8	5,158	1.2	699	13.6	12,603	3.1	1,816	14.4
Sub-total	364,907	80.7	70,002	19.2	576,818	61.5	110,710	19.2	655,546	54.0	104,397	15.9	215,358	48.4	32,323	15.0	230,919	56.1	37,523	16.2
Overseas markets																				
Direct sales	84,892	18.8	8,753	10.3	276,878	29.5	72,805	26.3	343,579	28.3	88,778	25.8	143,607	32.3	31,267	21.8	129,718	31.5	33,827	26.1
Wholesaling	2,484	0.5	1,132	45.6	84,473	9.0	31,234	37.0	215,714	17.7	85,977	39.9	85,863	19.3	32,910	38.3	50,777	12.4	22,294	43.9
Sub-total	87,376	19.3	9,885	11.3	361,351	38.5	104,039	28.8	559,293	46.0	174,755	31.3	229,470	51.6	64,177	28.0	180,495	43.9	56,121	31.1
Total	452,283	100.0	79,887	17.7	938,169	100.0	214,749	22.9	1,214,839	100.0	279,152	23.0	444,828	100.0	96,500	21.7	411,414	100.0	93,644	22.8

Sales in domestic market increased from approximately RMB364.9 million for the year ended 31 December 2016 to approximately RMB576.8 million for the year ended 31 December 2017, primarily due to the increase in (i) direct sales of SSAW steel pipes; and (ii) distributors as a result of increase in sales of standard prefabricated pipe nipples due to full year contribution in 2017. Sales in domestic market further increased to approximately RMB655.5 million for the year ended 31 December 2018, mainly due to increase in direct sales of (i) SSAW steel pipes; and (ii) ERW steel pipes.

Sales in overseas markets increased from approximately RMB87.4 million for the year ended 31 December 2016 to approximately RMB361.4 million for the year ended 31 December 2017, primarily due to increase in direct sales and wholesaling as a result of increase in sales of standard prefabricated pipe nipples due to full year contribution in 2017. Sales in overseas markets further increased to approximately RMB559.3 million for the year ended 31 December 2018, mainly due to increase in wholesaling as a result of increase in demand from customers for standard prefabricated pipe nipples. Sales in overseas markets decreased from approximately RMB229.5 million for the five months ended 31 May 2018 to approximately RMB180.5 million for the five months ended 31 May 2019, primarily due to (i) decrease in direct sales as a result of decrease in sales of ERW steel pipes to two major customers in United Arab Emirates and other Asian countries; and (ii) decrease in wholesaling as a result of decrease in demand from several customers in the United States and Americas for standard prefabricated pipe nipples and ERW steel pipes.

Please refer to "Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Revenue —Revenue by Product" for further details of fluctuation of our revenue.

Gross profit increased from approximately RMB79.9 million for the year ended 31 December 2016 to approximately RMB214.7 million for the year ended 31 December 2017, and further increase to approximately RMB279.2 million for the year ended 31 December 2018. Gross profit margin was approximately 17.7%, 22.9%, 23.0% and 22.8% for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. Fluctuation in gross profit margin was primarily affected by the product mix.

Gross profit margin of standard prefabricated pipe nipples increased from approximately 37.0% for the year ended 31 December 2016 to approximately 40.8% for the year ended 31 December 2017, mainly due to the increase in ASP outweighed the increase in average cost of raw materials. Gross profit margin of standard prefabricated pipe nipples remained relatively stable at approximately 42.5% and 42.8% for the year ended 31 December 2018 and the five months ended 31 May 2019, respectively.

Gross profit margin of ERW steel pipes increased from approximately 8.5% for the year ended 31 December 2016 to approximately 11.3% for the year ended 31 December 2017, mainly due to the reduction in fixed unit cost as a result of our expanded production volume in 2017. Gross profit margin of ERW steel pipes remained relatively stable at approximately 11.6% for the year ended 31 December 2018. Gross profit margin of ERW steel pipes increased from 10.9% for the five months ended 31 May 2018 to approximately 14.6% for the five months ended 31 May 2019, primarily due to the decrease in average cost of raw materials.

Gross profit margin of SSAW steel pipes decreased from approximately 21.7% for the year ended 31 December 2016 to approximately 17.2% for the year ended 31 December 2018, mainly due to the increase in average cost of raw materials outweighed the increase in ASP as a result of the adoption of a fixed monetary mark-up to the total estimated costs of our SSAW steel pipes under our pricing policy. Gross profit margin of SSAW steel pipes increased from approximately 13.6% for the five months ended 31 May 2018 to approximately 19.3% for the five months ended 31 May 2019, primarily due to (i) decrease in cost of raw materials outweighed the decrease in average selling price; and (ii) decrease in subcontracting fee because we had not engaged subcontractors to provide 3PE coating process during the five months ended 31 May 2019.

Gross profit margin of customised steel pipes increased from approximately 11.4% for the year ended 31 December 2016 to approximately 17.9% for the year ended 31 December 2018, mainly due to the reduction in fixed unit cost as a result of our expanded production volume. Gross profit margin increased from approximately 14.5% for the five months ended 31 May 2018 to approximately 19.3% for the five months ended 31 May 2019, primarily due to the decrease in cost of raw materials outweighed the decrease in ASP.

Gross profit margin of design and supply of assembled piping system was approximately 24.2%, 29.5% and 25.9% for the years ended 31 December 2017 and 2018 and the five months ended 31 May 2019, respectively. We price our products based on the nature for each individual project, taking into the quantity, type and complexity of each project. The higher gross profit margin in 2018 was mainly due to the higher revenue contribution from projects with higher value. Please refer to "Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Gross Profit and Gross Profit Margin" for further details.

The following table sets forth the breakdown of our revenue, gross profit and gross profit margins by geographical regions of our products for the periods indicated:

	For the years ended 31 December												For the five months ended 31 May							
	2016				2017				2018				2018				2019			
	Revenue	% of revenue	Gross profit	Gross profit margin	Revenue	% of revenue	Gross profit	Gross profit margin	Revenue	% of revenue	Gross profit	Gross profit margin	Revenue	% of revenue	Gross profit	Gross profit margin	Revenue	% of revenue	Gross profit	Gross profit margin
	RMB'000		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*		*RMB'000*	
													(unaudited)							
Domestic market																				
The PRC	364,907	80.7	70,002	19.2	576,818	61.5	110,710	19.2	655,546	54.0	104,398	15.9	215,358	48.4	32,323	15.0	230,919	56.1	37,522	16.3
Overseas markets																				
The United States	3,932	0.9	1,809	46.0	138,559	14.8	60,526	43.7	247,510	20.4	108,149	43.7	92,642	20.8	40,732	44.0	71,246	17.3	31,046	43.6
Other countries in America (excluding the United States) *(Note 1)*	13,162	2.9	1,562	11.9	68,974	7.3	17,018	24.7	101,215	8.3	32,753	32.4	41,100	9.3	10,334	25.1	34,335	8.5	10,129	29.5
Other countries in Asia (excluding the PRC)	61,537	13.6	5,681	9.2	121,831	13.0	17,971	14.8	169,760	14.0	24,183	12.3	79,772	17.9	10,002	12.5	53,777	13.1	9,623	17.9
Europe	1,401	0.3	158	11.3	17,836	1.9	6,730	37.3	13,803	1.1	4,927	35.7	4,819	1.1	1,733	36.0	5,907	1.3	1,867	31.6
Others *(Note 2)*	7,344	1.6	675	9.2	14,151	1.5	1,794	12.7	27,005	2.2	4,742	17.6	11,137	2.5	1,376	12.4	15,230	3.7	3,457	22.7
Subtotal	87,376	19.3	9,885	11.3	361,351	38.5	104,039	28.8	559,293	46.0	174,754	31.2	229,470	51.6	64,177	28.0	180,495	43.9	56,122	31.1
Total	452,283	100.0	79,887	17.7	938,169	100.0	214,749	22.9	1,214,839	100.0	279,152	23.0	444,828	100.0	96,500	21.7	411,414	100.0	93,644	22.8

Notes:

(1) Other countries in Americas (excluding the United States) comprise the continents of North and South America excluding the United States.

(2) Others mainly include Oceania and Africa.

Sales in the PRC increased from approximately RMB364.9 million for the year ended 31 December 2016 to approximately RMB576.8 million for the year ended 31 December 2017, mainly attributable to increase in sales of (i) ERW steel pipes; (ii) standard prefabricated pipe nipples due to the full year contribution; and (iii) SSAW steel pipes. Sales in the PRC further increased to approximately RMB655.5 million for the year ended 31 December 2018, mainly attributable to increase in sales of (i) ERW steel pipes; and (ii) SSAW steel pipes.

Sales in the United States increased from approximately RMB3.9 million for the year ended 31 December 2016 to approximately RMB138.6 million for the year ended 31 December 2017, mainly due to increase in sales of standard prefabricated pipe nipples as a result of the full year contribution. Sales in the United States further increased to approximately RMB247.5 million for the year ended 31 December 2018, mainly attributable by the increase in sales of standard prefabricated pipe nipples. Sales in the United States decreased from approximately RMB92.6 million for the five months ended 31 May 2018 to approximately RMB71.2 million for the five months ended 31 May 2019, mainly due to the decrease in sales orders received for standard prefabricated pipe nipples from our customers.

Sales in other Asian countries decreased from approximately RMB79.8 million for the five months ended 31 May 2018 to approximately RMB53.8 million for the five months ended 31 May 2019, mainly due to decrease in sales of ERW steel pipes as a result of decrease in demand from one of our existing customers.

Gross profit increased from approximately RMB79.9 million for the year ended 31 December 2016 to approximately RMB214.7 million for the year ended 31 December 2017, and further increase to approximately RMB279.2 million for the year ended 31 December 2018. Gross profit margin was approximately 17.7%, 22.9%, 23.0% and 22.8% for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. Fluctuation in gross profit margin was primarily affected by the product mix.

Please refer to "Financial Information — Description of Selection Items in Consolidated Statements of Profit or Loss — Revenue — Revenue by geographical regions" and "Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Gross Profit and Gross Profit Margin" for further details.

OUR PRODUCTION PROCESS AND PRODUCTS

Our standard prefabricated pipe nipple products are manufactured by cutting, threading or further processing of ERW steel pipes manufactured by us or other pre-processed pipes such as stainless steel pipes, brass pipes or seamless steel pipes purchased as raw materials from our suppliers. As to our ERW steel pipe products, they are manufactured by feeding a steel coil through rollers that will roll it into a hollow circular shape and forcibly squeezing the two ends of the steel coil together will produce a fused joint or seam. Welding is done by the application of heat and pressure and no filler material is used. Regarding our SSAW steel pipe products, they are manufactured by twisting strips of steel coil into a spiral shape, then welding where the edges join one another to form a seam. Our standard prefabricated pipe nipple products are manufactured in accordance with different international standards such as ASTM A733 or ANSI C80.1 and are mainly exported to overseas customers. Regarding our steel pipe products, they are manufactured in accordance with international standards such as ASTM A53. Our steel pipe products and customised steel pipe products are sold to domestic and overseas markets.

OUR PROCUREMENT AND SUPPLIERS

Our raw materials mainly included steel coils, pre-processed pipes, zinc ingots and consumables which include, among others, paints and plastics. Our raw materials used represents a major component of our cost of sales that accounted for approximately 89.0%, 87.1%, 86.5% and 85.7% of our cost of sales for each of the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. During the Track Record Period, our purchases from our top five suppliers amounted to approximately RMB209.7 million, RMB459.0 million, RMB574.0 million and RMB234.5 million, respectively, representing approximately 54.1%, 62.9%, 63.7% and 58.4% of our total purchases, respectively for the corresponding periods; while our purchases from our largest supplier amounted to approximately RMB76.0 million, RMB153.6 million, RMB220.1 million and RMB88.7 million, respectively, representing approximately 19.6%, 21.0%, 24.4% and 22.1% of our total purchases, respectively for the corresponding periods. For details, please see "Business — Our suppliers"

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths which differentiate our Group from competitors: (i) we offer high quality standard prefabricated pipe nipple products and steel pipe products of different specifications which meet various international and domestic standards; (ii) our industry knowledge and expertise enable us to provide customised steel pipe products of different specifications to accommodate customers' requirements; (iii) we have strong research and development capabilities and have been granted the status of High and New Technology Enterprise* (高新技術企業); (iv) established, stable and diversified customer base with reputable customers; and (v) we have an experienced management team and technical staff with profound industry knowledge.

OUR BUSINESS STRATEGIES

Our principal business objective is to achieve sustainable growth, further strengthen our position in the standard prefabricated pipe nipple industry and steel pipe industry and create long-term value for our Shareholders by executing the following strategies: (i) increase our production capacity for ERW steel pipes by the addition of new production lines; (ii) strengthen our competitiveness by upgrading our SSAW steel pipes production lines; (iii) set up of new production facility to house our 2540 SSAW steel pipes production line; (iv) expand our production to Vietnam; (v) expand our business horizontally through acquisition to continue to broaden our product offerings and thereby further enhance our market share; and (vi) further strengthen our research and development capabilities.

HIGHLIGHTS OF RISK FACTORS

We believe that there are certain risks involved in our business and operations. Our major risks include: (i) our business and results of operations may be adversely affected by the imposition of tariff on exports by the countries in which our overseas customers are located; (ii) we rely on our major customers which accounted for a significant portion of our revenue. Any change in our relationship with our major customers may materially and adversely affect our results of operations and financial condition; (iii) we are subject to the risk of foreign currency fluctuations; (iv) fluctuation in the prices of our major raw materials may have adverse impacts on our financial results; (v) we are subject to risks associated with conducting business overseas; (vi) we recorded net current liabilities as at 31 December 2016 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future; and (vii) we had net operating cash outflow from our operating activities for the year ended 31 December 2016 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future.

SUMMARY OF CONSOLIDATED KEY FINANCIAL INFORMATION

The following is a summary of our consolidated financial information set forth in the Accountants' Report in Appendix I to this prospectus. The following summary should be read together with the information set out in "Financial Information" and consolidated financial information including the accompanying notes in Appendix I to this prospectus.

Selected items of consolidated statements of profit or loss

	For the years ended 31 December			For the five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	452,283	938,169	1,214,839	444,828	411,414
Cost of sales	(372,396)	(723,420)	(935,687)	(348,328)	(317,770)
Gross profit	79,887	214,749	279,152	96,500	93,644
Other income	361	64	399	189	555
Other gains and losses	5,801	(944)	1,090	(1,445)	6,074
Distribution and selling expenses	(20,624)	(48,445)	(65,909)	(25,054)	(21,881)
Administrative expenses	(11,711)	(22,626)	(26,248)	(9,245)	(9,446)
Research and development costs	(21,871)	(33,845)	(49,990)	(17,323)	(17,614)
Impairment losses on trade receivables and contract assets	(1,547)	(2,769)	(92)	(338)	(479)
Finance costs	(1,159)	(14,957)	(14,464)	(5,864)	(5,251)
Listing expenses	—	—	(4,523)	—	(6,609)
Profit before taxation	29,137	91,227	119,415	37,420	38,993
Taxation charge	(4,952)	(13,650)	(17,944)	(6,135)	(6,732)
Profit and total comprehensive income for the year/period	24,185	77,577	101,471	31,285	32,261

Our total revenue increased from approximately RMB452.3 million for the year ended 31 December 2016 to approximately RMB938.2 million for the year ended 31 December 2017 primarily due to the combined effects of (i) increase in sales of standard prefabricated pipe nipples mainly attributable to the full year contribution of the production of standard prefabricated pipe nipples in 2017; and (ii) increase in ASP of standard prefabricated pipe nipples and steel pipe products due to increase in cost of steel coils. Our total revenue further increased to approximately RMB1,214.8 million for the year ended 31 December 2018 primarily due to the combined effects of (i) the significant increase in ASP of standard prefabricated pipe nipples and steel pipes products mainly driven by the increase in average cost of raw materials in 2018; (ii) increase in sales of standard prefabricated pipe nipples due to the increase in market demands from new orders from over 20 new customers in 2018; and (iii) the increased demand of our steel pipe product. Our total revenue decreased from approximately RMB444.8 million for the five months ended 31 May 2018 to approximately RMB411.4 million for the five months ended 31 May 2019, primarily due to decrease in sales of standard prefabricated pipe nipples as a result of the decrease in demand for our products of several major customer.

Our gross profit margin increased from approximately 17.7% for the year ended 31 December 2016 to approximately 22.9% for the year ended 31 December 2017 primarily due to (i) the increase in average selling price of standard prefabricated pipe nipples outweighed the increase in average cost of raw materials; and (ii) the reduction in fixed unit cost of ERW steel pipes and customised steel pipes as a result of our expanded production volume for the year ended 31 December 2017. Our gross profit margin remained relatively stable at approximately 22.9%, 23.0%, 21.7% and 22.8% for the years ended 31 December 2017 and 2018 and the five months ended 31 May 2018 and 2019, respectively.

Selected items of consolidated statements of financial position

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	212,859	202,136	214,406	227,394
Current assets	361,230	524,401	593,643	562,011
Current liabilities	371,610	446,481	427,895	539,843
Net current (liabilities)/assets	(10,380)	77,920	165,748	22,168
Non-current liability	—	—	1,622	1,290
Net assets	202,479	280,056	378,532	248,272
Total equity	202,479	280,056	378,532	248,272

As at 1 January 2016, our Group had recorded an accumulated loss in the sum of approximately RMB0.2 million. Our Directors are of the view that the loss recorded was mainly attributable to (i) the capital intensive nature of our standard prefabricated pipe nipples and steel pipe industry; (ii) early stage of production; (iii) limited clientele; and (iv) declaration of dividend. The accumulated losses have since improved for the year ended 31 December 2016, primarily contributed by (i) expansion of product portfolio; (ii) increase in number of customers which had improved our production volume and utilisation rate; (iii) significant increase in overseas sales; and (iv) continuous effort in research and development. Please see "Financial Information — Accumulated Losses" for further details.

We recorded net current liabilities of approximately RMB10.4 million as at 31 December 2016 as compared to net current assets of approximately RMB77.9 million as at 31 December 2017, primarily due to (i) increase in inventories as a result of increase in product mix after acquisition of standard prefabricated pipe nipple business in November 2016 and starting provision of design and supply of assembled piping system in 2017 and the increase in revenue in 2017; (ii) increase in trade receivables and trade receivables backed by bills, as a result of increase in sales near the end of 2017; and (iii) increase in pledged bank deposits. Such increase was partially offset by (i) decrease in amounts due from related parties as a result of decrease in sales of pipe products to Meide Group near end of 2017; (ii) increase in trade and bills payables as a result of increase in the procurement of raw materials for our production activities; (iii) increase in refund liabilities which was driven by the increase in sales volume; and (iv) increase in amounts due to a related party as a result of increase in purchase of raw materials in 2017. Please see "Risk Factors — We recorded net current liabilities as at 31 December 2016 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future".

We improved our liquidity position from net current liabilities of approximately RMB10.4 million as at 31 December 2016 to approximately RMB77.9 million as at 31 December 2017, mainly attributable to the improvement in our financial performance as a result of (i) the expansion of our product portfolio after acquisition of standard prefabricated pipe nipple business which generates the highest gross profit margin among our major products; (ii) expansion of our customer base contributed by the expansion of our sales and marketing team as well as our promotion and marketing expenses; (iii) expansion to overseas market as a result of our active pursuit of business opportunities with new customers; and (iv) the increase in research and development effort which allowed us to attract new customers and at the same time retain our current customers to order high quality and wide range of products from us.

Our net current assets increased from approximately RMB77.9 million as at 31 December 2017 to approximately RMB165.7 million as at 31 December 2018, primarily due to (i) increase in contract assets because the products sold in previous year are still within the retention period and the accumulation of retention money from new product sold; (ii) increase in financial assets at FVTPL which was mainly attributable to increase in investment in structured bank deposits; (iii) decrease in trade and bills payables mainly driven by decrease in purchase of inventory near end of 2018 as compared to that of 2017; and (iv) decrease in amounts due to a related party as a result of decrease in purchase of raw materials from Meide Group. Such increase was partially offset by (i) decrease in deposits, prepayments and other receivables as a result of use of input VAT recoverable; (ii) decrease in pledged bank deposits; (iii) decrease in bank balances and cash; and (iv) increase in contract liabilities which was related to timing of delivery of products to our customers; (v) increase in refund liabilities which was driven by the increase in sales volume; and (vi) increase in other payables and accrued charges as a result of (a) increase in other tax payable and (b) increase in transportation cost payable due to the increase in sales volume to overseas customers.

Our net current assets decreased from approximately RMB165.7 million as at 31 December 2018 to approximately RMB22.2 million as at 31 May 2019, primarily due to (i) increase in amounts due to shareholders/former shareholders as a result of transfer of the entire equity interest of Jinan Mech to Tube Industry Investments as part of the Reorganisation of approximately RMB162.7 million which was fully settled by Tube Industry Investments borrowing a loan amounted to approximately RMB162.7 million from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI while the loan was then fully settled by Tube Industry Investments allotting and issuing 10,000 ordinary shares to Guan Dao Investments; (ii) decrease in financial assets at FVTPL as a result of decrease in investment in structured bank deposits for purposes including repayment of bank borrowing and purchase of inventories for conducting our ordinary course of business; (iii) decrease in trade receivables backed by bills as a result of settlement made prior to the period end; and (iv) decrease in bank balances and cash. Such decrease was partially offset by (i) increase in inventories as a result of anticipation of the demand between March to October for the preparation of demand in heating during winter; (ii) decrease in borrowings as a result of repayment of the borrowings; and (iii) increase in deposits, prepayments and other receivables as a result of increase in advance payment for materials and other tax recoverable due to increased purchase of materials.

Our net assets increased from approximately RMB202.5 million as at 31 December 2016 to approximately RMB280.1 million as at 31 December 2017, and further to approximately RMB378.5 million as at 31 December 2018, primarily due to the profit generated for the respective year. Our net assets then decreased to approximately RMB248.3 million as at 31 May 2019, primarily due to the the transfer of the entire equity interest of Jinan Mech to Tube Industry Investments as part of the Reorganisation, which led to the decrease in share capital and non-controlling interests of approximately RMB86.3 million and RMB184.8 million, respectively, and partially offset by the increase in other reserve of approximately RMB108.4 million.

Selected items of consolidated statements of cash flows

	For the years ended 31 December			For the five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Operating cash flows before movements in working capital	43,717	128,149	156,225	52,914	53,067
Net cash (used in)/from operating activities	(24,086)	39,383	111,162	(46,358)	(21,157)
Net cash (used in)/from investing activities	(52,790)	(24,090)	(102,043)	4,647	49,483
Net cash from/(used in) financing activities	125,317	(14,361)	(16,458)	(5,864)	(36,377)
Net increase/(decrease) in cash and cash equivalents	48,441	932	(7,339)	(47,575)	(8,051)
Cash and cash equivalents at beginning of the year/period	4,416	52,857	53,789	53,789	46,450
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	52,857	53,789	46,450	6,214	38,399

For the year ended 31 December 2016, our Group had net cash used in operating activities of approximately RMB24.1 million, which was cash used in operations of approximately RMB21.1 million, and offset by income tax paid of approximately RMB3.0 million. Negative changes in working capital mainly reflected by (i) increase in trade receivables and trade receivables backed by bills, as a result of increase in revenue near the end of 2016; and (ii) increase in amounts due from related parties; and (iii) decrease in amounts due to a related party. As a result of acquisition of standard prefabricated pipe nipples in November 2016 and new orders received from a new customer, sales near end of 2016 increased. Since our Group generally allows a credit period of 60 days to related parties and 0 to 180 days to trade customers, trade receivables and amounts due to related parties were not collected in a timely manner. See "Risk Factors — We had net operating cash outflow from our operating activities for the year ended 31 December 2016 and five months ended 31 May 2019 and may face financial difficulties in the future if we fail to maintain effective cash flow management" for further details.

For the year ended 31 December 2018, our net cash generated from operating activities of approximately RMB111.2 million, which was cash generated from operations of approximately RMB125.8 million, and offset by income tax paid of approximately RMB14.7 million. Negative changes in working capital mainly reflected by (i) increase in contract assets as a result of products sold in previous year still within the retention period and the accumulation of retention money from new products sold; and (ii) decrease in trade and bills payables mainly drive by decrease in purchase of inventory.

For the five months ended 31 May 2018, our net cash used in operating activities of approximately RMB46.4 million, which consists of cash used in operations of approximately RMB39.5 million, and income tax paid of approximately RMB6.9 million. Negative changes in working capital mainly reflected by (i) decrease in trade and bills payables as a result of settlement of trade payables to suppliers before period end; (ii) the increase in trade receivables; (iii) the increase in deposits, prepayments and other receivables; (iv) the increase in inventories and net off by (v) the decrease in trade receivables backed by bills.

For the five months ended 31 May 2019, our net cash used in operating activities of approximately RMB21.2 million, which consists of cash used in operations of approximately RMB14.7 million, and income tax paid of approximately RMB6.5 million. Negative changes in working capital mainly reflected by (i) increase in inventories for the anticipation of the demand of peak seasons; (ii) increase in deposits, prepayments and other receivables; (iii) decrease in trade and bills payables as a result of settlement of trade payables to suppliers before period end; and (iv) settlement of amounts due to a related party.

Although our Group recorded net cash used in operating activities for the five months ended 31 May 2019, our Directors believe that after taking into account the financial resources presently available to us, including cash flow from operations, banking facilities, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this prospectus. Details of the factors are set out as follows:

(a) *Cash flow from operations:* We expect our cash flow from operating activities to increase as we expect to generate more profits from our operation. Our Directors expected that our sales of standard prefabricated pipe nipples and steel pipe products will increase as compared to the five months ended 31 May 2019, and there will be a decrease in our inventories as a result of the increased sales; and

(b) *Net proceeds from the Global Offering:* Assuming an Offer Price of HK$1.86 per Offer Share, being the low end of the indicative Offer Price range, and after deducting related underwriting fees and estimated expenses in connection with the Global Offering, our Group estimated that the aggregate net proceeds to our Company from the Global Offering will be approximately HK$141.5 million.

As such, our Directors are of the view that our net cash used in operating activities for the five months ended 31 May 2019 does not have any adverse implication on the sufficiency of our Group's working capital. Going forward, we believe our liquidity requirements will be satisfied by using funds for a combination of cash flows from operations and net proceeds from the Global Offering.

Further, we have adopted a cash flow management policy, pursuant to which (i) our finance department shall prepare annual cash flow forecast and its explanatory notes and the forecast will be approved by our Board; (ii) our finance department shall prepare monthly cash flow forecast to monitor our cash positions of our operations and our finance department shall formulate financing plans should there be any expected cash deficiency; and (iii) our finance department shall carry out monthly analysis on the cash position of our Group when formulating monthly cash flow forecast to better monitor our cash position and deal with the cash flow management issues. It is expected that our cash flow management in operating activities would be strengthened.

Key financial ratios

	For the years ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
Profitability ratios				
Gross profit margin (%)	17.7	22.9	23.0	22.8
Return on equity (%)	11.9	27.7	26.8	N/A
Return on total assets (%)	4.2	10.7	12.6	N/A

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
Liquidity ratios				
Current ratio (times)	1.0	1.2	1.4	1.0
Quick ratio (times)	0.7	0.8	1.0	0.6
Capital adequacy ratios				
Gearing ratio (%)	148.2	107.4	79.5	109.7
Interest coverage (times)	26.1	7.1	9.3	8.4

See "Financial Information — Key financial ratios" for the calculation basis of these key financial ratios.

LISTING EXPENSES

Assuming the Offer Price of HK$2.13 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total amount of expenses in relation to the Listing including the underwriting commission and other listing expenses and fees are estimated to be approximately HK$42.3 million (equivalent to approximately RMB36.4 million) which shall be borne by our Company. During the Track Record Period, we incurred listing expenses of approximately HK$12.9 million (equivalent to approximately RMB11.1 million) which has been charged to our consolidated statements of profit or loss and other comprehensive income. It is estimated that approximately HK$16.5 million (equivalent to approximately RMB14.2 million) will be charged to our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period, and approximately HK$9.1 million (equivalent to approximately RMB7.8 million) is estimated to be directly attributable to the issue of the new Shares and is to be accounted for as a deduction from the equity in accordance with the relevant accounting standard after the Listing. The estimated listing-related expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Company upon the completion of the Listing. We expect that the Listing expenses may have a negative impact on our results of operations.

CONTROLLING SHAREHOLDERS' INFORMATION

Upon the completion of the Capitalisation Issue and the Global Offering (taking no account of any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme), Ying Stone, which is wholly-owned by Mr. Kong, will be interested in 39.788% of the enlarged issued share capital of our Company. As such, Mr. Kong and Ying Stone will be our Controlling Shareholders within the meaning of the Listing Rules. For details of the shareholding structure of our Company, see "History, Reorganisation and Corporate Structure — Corporate Structure Immediately upon Completion of the Capitalisation Issue and the Global Offering".

Mr. Kong wholly-owns Ningbo Ming De, which in turn owns 35.49% of Meide. He currently also holds 6.50% limited partnership interest in Jinan Gong Chuang Meide and was appointed in January 2017 as the general partner of Jinan Gong Chuang Meide, which in turn owns 64.51% of Meide since August 2016. As such, he obtained control of Meide in January 2017. Meide Group engages in business operations across different sectors, including (i) manufacture of malleable iron, ductile iron and bronze pipe fittings, malleable iron valves and malleable iron electric power fittings in the PRC ("**Pipe Fitting Products**"); (ii) production of iron raw materials typically used in foundry industry; and (iii) financial investment ("**Excluded Business**").

Relationship with and Delineation of Business from Meide

Our Directors consider that Meide Group's Pipe Fitting Products are clearly delineated from our products on the basis of (i) different design and appearance; (ii) our products and Meide Group's Pipe Fitting Products are neither inter-replaceable nor substitutable with each other; and (iii) Meide Group is not engaged in the business of design and supply of assembled piping system. Furthermore, Meide Group's business operation in manufacturing Pipe Fitting Products and our business operation are substantially different in respect of (i) industries; (ii) production standards; (iii) major technologies and production facilities; (iv) raw materials; (v) functionality by end-users; and (vi) trade/industry associations. For details, please see "Relationship with our Controlling Shareholders — Delineation of Business".

We have entered into certain transactions with Meide Group including sales of ERW steel pipe products and SSAW steel pipe products to Meide Group under both distributorship and direct sales channels during the Track Record Period. For details, please see "Business — Our transactions with Meide Group". We entered into the (i) Trademark Licensing Agreement; (ii) Products Purchase Framework Agreement; and (iii) Products Supply Framework Agreement. For details, please see "Continuing Connected Transactions".

ACQUISITION OF STANDARD PREFABRICATED PIPE NIPPLES BUSINESS FROM MEIDE

In November 2016, our Group entered into asset transfer agreements with Meide, pursuant to which Meide had transferred (i) manufacturing facilities, supporting electronic equipment and vehicles for the manufacture of standard prefabricated pipe nipples; (ii) raw materials, semi-finished products and finished products of standard prefabricated pipe nipples; and (iii) factory buildings with a total area of approximately 23,485.2 sq.m. (collectively, the "**Relevant Assets**") to our Group, at a cash consideration of RMB91.4 million (excluding value-added tax payable). The consideration was determined with reference to the value of the Relevant Assets as assessed by an Independent Third Party valuer as at 31 October 2016 which amounted to RMB91.4 million (excluding value added tax payable). After completion of the acquisition of the Relevant Assets, our Group commenced the standard prefabricated pipe nipple business. See "History, Reorganisation and Corporation Structure — Acquisition of the standard prefabricated pipe nipples business from Meide" for further details.

The acquisition of the Relevant Assets in November 2016 constituted a major transaction should we have been a listed issuer of the Stock Exchange at the time of the acquisition. Pursuant to Rule 4.05A of the Listing Rules, we are required to disclose pre-acquisition financial information from the commencement of the Track Record Period to the date of acquisition. The pre-acquisition financial information has been disclosed in note 37 of the Accountants' Report in Appendix I to this prospectus.

PRE-IPO INVESTMENT

Mr. Meining is our Pre-IPO Investor. Pursuant to the equity transfer agreement dated 5 March 2019, Tong Chuang Sheng De LP sold 2.999% interest in Jinan Mech to Tube Industry Investments (which is wholly-owned by Guan Dao Investments, which was then wholly-owned by Mr. Meining) at a consideration of RMB11,216,900 which was fully settled on 3 April 2019. There is no special right granted to the Pre-IPO Investor in connection with the Pre-IPO Investment and any Shares held by the Pre-IPO Investor will be subject to a lock-up period of six months from the Listing Date. Immediately following the completion of the Global Offering (without taking into account of the Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme), Mr. Meining (through Meining Investments, his investment holding company) will hold 2.319% of the total issued share capital of our Company, which will be counted as part of the public float for the purpose of Rule 8.08 of the Listing Rules. For details, see "History, Reorganisation and Corporate Structure — Our Corporate Development — Pre-IPO investment".

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK$2.13 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK$167.3 million (equivalent to approximately RMB143.9 million). We intend to use the net proceeds from the Global Offering in the following manner:

- approximately 19.0% or approximately RMB27.3 million (equivalent to approximately HK$31.8 million), will be used for increasing our production capacity of our production of ERW steel pipes by addition of three new production lines. Out of the three production lines, two of them will be used to produce high-quality ERW steel pipes with different specifications to satisfy our customers' needs and to diversify our product offerings, while the other new production line will focus on paint coating treatment. For details of the new production lines, please see "Business — Our Business strategies — Increase our production capacity of ERW steel pipes by the addition of new production lines";

- approximately 22.3% or approximately RMB32.1 million (equivalent to approximately HK$37.3 million), will be used for strengthening our competitiveness by upgrading one of our SSAW steel pipes production line; and approximately 9.4% or approximately RMB13.5 million (equivalent to approximately HK$15.7 million), will be used for setting up a new production facilities building for our SSAW production facilities. Our Directors intend to set up a new production facilities building on the plot of land owned by us which is adjacent to our production facilities and to house our production line of 2540 SSAW steel pipes;

- approximately 9.4% or approximately RMB13.5 million (equivalent to approximately HK$15.7 million), will be used for expanding to overseas to increase the production capacity. As at the Latest Practicable Date, our Group had leased a production plant in Dong Nai, Vietnam which was built on a land piece with total land area of approximately 8,043 sq.m.. We intend to acquire an additional of three production lines in the production plant in Vietnam. Details of the production lines are set out in "Business — Business strategies — Expand our production to Vietnam";

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for expanding our business horizontally through acquisition/collaboration to continue to broaden our production offerings and thereby further enhance our market penetration;

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for further strengthen our research and development capabilities by investing on four research and development projects;

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for the repayment of part of our borrowings. We intend to repay a loan advanced by Industrial and Commerce Bank of China to our Group with pursuant to a loan agreement dated 25 March 2019 which Industrial and Commerce Bank of China agreed to advance an amount of RMB100.0 million to our Group for a term of one year with an effective interest rate of the loan prime rate plus 0.04% per annum. We primarily used the proceeds of this loan for our operating activities; and

- approximately 9.9% or approximately RMB14.3 million (equivalent to approximately HK$16.7 million), will be used for our general working capital.

For details, see "Business — Our business strategies" and "Future Plans and Use of Proceeds".

STATISTICS OF THE GLOBAL OFFERING

	Based on an Offer Price of HK$1.86	**Based on an Offer Price of HK$2.40**
Market capitalisation of the Shares	HK$807 million	HK$1,041 million
Unaudited pro forma adjusted net tangible assets per Share *(Note)*	HK$1.030	HK$1.149

Note: No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 May 2019, in particular, the unaudited pro forma adjusted consolidated net tangible assets has not been adjusted for the effect of the capitalisation of loan of which a loan in the sum of RMB162,670,000 lent to Tube Industry Investments Limited in October 2019 by some of the shareholders of the Group, including Ying Stone Holdings Limited, Tong Chuang Sheng De Limited, Tong Chuang Shun De Limited, Tong Chuang Xing De Limited and Tong Chuang Chang De Limited, shall be capitalised by the issue of 10,000 Shares of Tube Industry Investments Limited to Guan Dao Investments Limited. Had the capitalisation of loan been taken into account by adjusting RMB162,670,000 to the Group's unaudited pro forma adjusted consolidated net tangible assets of the

Group attributable to the owners of the Company, the unaudited pro forma adjusted consolidated net tangible assets per Share would be increased to HK$1.466 and HK$1.585 based on the Offer Price of HK$1.86 per Share and HK$2.40 per Share respectively which is arrived at on the basis of a total of 433,800,000 Shares.

DIVIDEND AND DIVIDEND POLICY

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. The dividends declared and paid by Jinan Ma Steel to its then shareholders was approximately RMB22.6 million, nil, nil and nil for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and as at the Latest Practicable Date, save as disclosed in "Business — Legal proceedings and compliance", our Group had not been involved in claims or litigations which had material adverse effect on our business results of operations or financial conditions.

During the Track Record Period, we failed to make social security contributions and make deposit registration and payment contributions of the housing provident fund for certain employee in compliance with applicable laws and regulations in the PRC during the Track Record Period. See "Business — Legal proceedings and compliance" for details.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

After the Track Record Period and up to the Latest Practicable Date, our production plant in Vietnam commenced manufacturing of standard prefabricated pipe nipple products. As at the Latest Practicable Date, we had a total of 81 employees in Vietnam for the daily operation of our production.

To expand our product offerings, we acquired an ERW steel pipes production line for welding and coating at an acquisition cost of approximately RMB10.4 million and RMB1.4 million, respectively. With respect to our ERW production line for welding, the production capacity is approximately 20,752 tons per year. As to our ERW production line for coating, the production capacity is approximately 11,438 tons per year. Both of the production lines were located at our PRC production facilities and commenced operation in June 2019.

Based on the management accounts of our Group, for the nine months ended 30 September 2019, our Group recorded a relatively lower revenue and gross profit as compared with the corresponding period in 2018, mainly due to the decline in revenue generated from standard prefabricated pipe nipples as affected by the trade tension between the U.S. and the PRC. Our Directors expect that our financial performance for the year ending 31 December 2019 may decline as compared to that of the year ended 31 December 2018, mainly due to the aforementioned reasons.

As at 31 May 2019, amounts due to shareholders/former shareholders amounted to approximately RMB162.7 million which represent cash consideration of the entire equity interest of Jinan Mech to Tube Industry Limited under the Reorganisation. The amounts are non-trade nature, unsecured, interest-free and repayable on demand. The amounts was fully settled by borrowing a loan amounted to RMB162.7 million from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI by Tube Industry Investments as at the Latest Practicable Date. Such loan was then fully settled by Tube Industry Investments allotting and issuing 10,000 ordinary shares to Guan Dao Investments.

Our Directors confirmed that, save for disclosed above, after the Track Record Period and up to the date of this prospectus: (i) there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operation position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report in Appendix I to this prospectus.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"Accountants' Report"	the accountants' report set out in Appendix I to this prospectus
"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Form(s)"	the **WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Application Form(s) or, where the context so requires, any of them
"Application Lists"	the application lists for the Hong Kong Public Offer
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company conditionally adopted on 19 November 2019 and effective on the Listing Date, as amended or supplemented from time to time and a summary of which is contained in Appendix III to this prospectus
"Audit Committee"	the audit committee of our Board
"Board" or "Board of Directors"	the board of directors of our Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"BVI"	British Virgin Islands
"Capitalisation Issue"	the issue of 335,383,230 Shares to be made upon capitalisation of an amount of US$33,538.3 standing to the credit of the share premium account of our Company referred to under "Statutory and General Information — A. Further Information About our Company and our Subsidiaries — 3. Resolutions in Writing of all our Shareholders passed on 19 November 2019 in Appendix IV to this prospectus
"Cayman Companies Law"	the Companies Law, Cap.22 (Law 3 of 1961) of the Cayman Islands, as amended or supplemental from time to time
"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"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Chairman"	the chairman of the Board
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
"Company" or "our Company"	Maike Tube Industry Holdings Limited (迈科管业控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 1 February 2019, and registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 April 2019
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and in the context of our Company, means Mr. Kong and Ying Stone
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Deed of Indemnity"	the deed of indemnity dated 19 November 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), particulars of which are set out in "Statutory and General Information — D. Other Information — 2. Taxation and other indemnities" in Appendix IV to this prospectus
"Directors" or "our Directors"	the directors of our Company
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
"Fortune (HK) Securities Limited"	A licensed corporation registered under the SFO to carry out Type 1 (dealing in securities) regulated activity as defined in the SFO
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant and an independent third party
"Frost & Sullivan Report"	the industry report issued by Frost & Sullivan, details of which are set out in "Industry Overview"
"GDP"	gross domestic product

"Global Offering"	the Hong Kong Public Offer and the International Placing
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our Group", "we" or "us"	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
"Guan Dao Investments"	Guan Dao Investments Limited, a company incorporated under the laws of the BVI with limited liability on 3 January 2019 and is a direct wholly-owned subsidiary of our Company after completion of the Reorganisation
"HK$", "HKD" or "Hong Kong dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Offer Shares"	9,840,000 new Shares being initially offered by us for subscription pursuant to the Hong Kong Public Offer subject to reallocation as described in "Structure and Conditions of the Global Offering"
"Hong Kong Public Offer"	the offer by us of the Hong Kong Offer Shares to the public in Hong Kong for subscription at the Offer Price, on and subject to the terms and conditions set out in this prospectus and the Application Forms, as further described in "Structure and Conditions of the Global Offering"
"Hong Kong Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hong Kong Underwriters"	the underwriters listed in "Underwriting — Hong Kong Underwriters", being the underwriters of the Hong Kong Public Offer
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 27 November 2019 relating to the Hong Kong Public Offer entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, as further described in "Underwriting"

"Independent Third Party(ies)"	a party or parties that is or are not connected with (within the meaning of the Listing Rules) any Directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
"International Placing"	the conditional placing of the International Placing Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in "Structure and Conditions of the Global Offering"
"International Placing Shares"	88,560,000 new Shares being initially offered by us for subscription pursuant to the International Placing
"International Sanctions"	laws, regulations, and other measures implemented by government authorities, whether unilaterally or pursuant to an action of a multilateral intergovernmental organisation such as the United Nations (UN) or the European Union (EU), for the purpose of restricting international trade, investment, and finance activities involving certain targeted countries or involving certain targeted organisations, entities, or individuals
"International Underwriters"	the underwriters for the International Placing who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the underwriting agreement relating to the International Placing to be entered into by, among others, our Company, the Sole Sponsor and the International Underwriters on or around the Price Determination Date, as further described in "Underwriting"
"Jinan Gong Chuang Meide"	Jinan Gong Chuang Meide Corporate Management Partnership (Limited Partnership)* (濟南共創玫德企業管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC on 18 August 2016. As at the Latest Practicable Date, Mr. Kong, our executive Director and one of our Controlling Shareholders, held 6.50% of the limited partnership interest and was appointed in January 2017 as the general partner of Jinan Gong Chuang Meide, which in turn owns 64.51% of Meide since August 2016
"Jinan Mech"	Jinan Mech Piping Technology Co., Ltd* (濟南邁科管道科技有限公司), a company established under the laws of the PRC as a joint stock company with limited liability company on 21 May 2013 and is an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation

"Jinan Ma Steel"	Jinan Magang Steel Pipes Manufacturing Company* (濟南瑪鋼鋼管製造有限公司), a company established under the laws of the PRC as a limited liability company on 7 November 2001 and is an indirect wholly-owned subsidiary of our Company after completion of the Reorganisation
"Joint Bookrunners" or "Joint Lead Managers"	collectively (i) Fortune (HK) Securities Limited; (ii) Livermore Holdings Limited, a licensed corporation registered under the SFO to carry out Type 1 (dealing in securities) regulated activity as defined in the SFO; (iii) Zhongtai International Securities Limited, a licensed corporation registered under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising in securities) regulated activity as defined in the SFO; and (iv) First Shanghai Securities Limited, a licensed corporation registered under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising in securities) and Type 6 (advising in corporate finance) regulated activity as defined in the SFO
"Latest Practicable Date"	20 November 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	the listing of the 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 around 18 December 2019, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Meide"	Meide Group Co., Ltd.* (玫德集團有限公司) (formerly known as Jinan Meide Foundry Co., Ltd* (濟南玫德鑄造有限公司)), a company established under the laws of the PRC as a limited liability company on 17 January 1992, and is held as to 64.51% by Jinan Gong Chuang Meide and 35.49% by Ningbo Ming De
"Meide Group"	Meide and its subsidiaries

"Meining Investments"	Meining Investments Limited, a company incorporated under the laws of the BVI with limited liability on 31 December 2018, which was wholly-owned by Mr. Meining as his investment holding company as at the Latest Practicable Date. Meining Investment is our Pre-IPO Investor
"Memorandum" or "Memorandum of Association"	the memorandum of association of our Company, conditionally adopted on 19 November 2019 and effective on the Listing Date, and as amended or supplemented from time to time a summary of which is contained in Appendix III to this prospectus
"Mr. Kong"	Mr. Kong Linglei (孔令磊), one of our Controlling Shareholders, the Chairman and executive Director
"Mr. Kong XC"	Mr. Kong Xiangcun (孔祥存), who was a former director of Meide Group and the late father of Mr. Kong
"Mr. Meining" and "Pre-IPO Investor"	Mr. Stefan Meining, our pre-IPO investor
"MOFCOM"	Ministry of Commerce of the PRC
"Ningbo Ming De"	Ningbo Ming De Heng Sheng Investment Limited (寧波明德恒生投資有限公司), a company established under the laws of the PRC as a limited liability company on 15 August 2016 and wholly-owned by Mr. Kong, which in turn owns 35.49% of Meide
"Nomination Committee"	the nomination committee of our Board
"Offer Price"	the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK$2.40 per Offer Share and expected to be not less than HK$1.86 per Offer Share, such price to be determined by agreement between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date, as further described in "Structure and Conditions of the Global Offering — Pricing and allocation"
"Offer Shares"	the Hong Kong Offer Shares and the International Placing Shares
"PRC" or "China" or "Mainland China" or "State"	the People's Republic of China excluding for the purposes of this prospectus only, Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
"PRC Legal Adviser"	Beijing Deheng Law Offices (北京德恒律師事務所)
"Pre-IPO Investment"	the investments made by the Pre-IPO Investor, the principal terms of which are summarised in "History, Reorganisation and Corporate Structure — Pre-IPO Investments"

"Price Determination Date"	the date expected to be on or around Monday, 9 December 2019, but no later than Thursday, 12 December 2019, on which our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) determine the Offer Price is fixed for the purpose of the Global Offering
"Products Purchase Framework Agreement"	the products purchase framework agreement entered into between Meide and our Company dated 22 November 2019
"Products Supply Framework Agreement"	the products supply framework agreement entered into between Meide and our Company dated 22 November 2019
"Principal Share Registrar"	Tricor Services (Cayman Islands) Limited
"Regulation S"	Regulation S under the U.S. Securities Act
"Remuneration Committee"	the remuneration committee of our Board
"Reorganisation"	the reorganisation of our Group in preparation for the Listing, details of which are set out in "History, Reorganisation and Corporate Structure — Reorganisation"
"RMB"	Renminbi, the lawful currency of the PRC
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"Sanctioned Country(ies)"	A country or countries or other jurisdiction(s) that is/are the subject of a general and comprehensive export, import, financial or investment embargo under International Sanctions that are generally applicable to its government or to certain categories of such jurisdiction's residents or citizens or of companies or other entities established within such jurisdiction which is subject to general sanctions, such as Russia, Iran, Cuba, Syria and North Korea
"Sanctioned Person(s)"	An individual or legal entity (i) that is included in a published list of specific individuals, companies, groups, or entities subject to International Sanctions imposed by the U.S., Australia, the U.K., or by EU member states pursuant to an EU directive, such as the Specially Designated Nationals and Blocked Persons List or the Sectoral Sanctions Identifications List maintained by the U.S. Office of Foreign Assets Control (OFAC); (ii) that is or is owned or controlled by, a government of a Sanctioned Country; or (iii) that is the target of International Sanctions because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii)
"SFC"	Securities and Futures Commission of Hong Kong

"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share(s)"	ordinary share(s) with a par value of US$0.0001 each in the share capital of our Company
"Shareholder(s)"	holder(s) of Shares
"Share Option Scheme"	the share option scheme approved and conditionally adopted by our Company on 19 November 2019, the principal terms of which is set out under the paragraph headed "1. Share Option Scheme" in Appendix IV to this prospectus
"Sole Global Coordinator"	Fortune (HK) Securities Limited
"Sole Sponsor"	Fortune Financial Capital Limited
"State Council"	State Council of the PRC (中華人民共和國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Code on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended or supplemented from time to time
"Tong Chuang Chang De BVI"	Tong Chuang Chang De Limited, a company incorporated under the laws of the BVI with limited liability on 4 January 2019. Tong Chuang Chang De BVI is one of our Shareholders
"Tong Chuang Sheng De BVI"	Tong Chuang Sheng De Limited, a company incorporated under the laws of the BVI with limited liability on 7 January 2019. Tong Chuang Sheng De BVI is one of our substantial Shareholders
"Tong Chuang Shun De BVI"	Tong Chuang Shun De Limited, a company incorporated under the laws of the BVI with limited liability on 7 January 2019. Tong Chuang Shun De BVI is one of our Shareholders
"Tong Chuang Xing De BVI"	Tong Chuang Xing De Limited, a company incorporated under the laws of the BVI with limited liability on 4 January 2019. Tong Chuang Xing De BVI is one of our substantial Shareholders
"Tong Chuang Chang De LP"	Jinan Tong Chuang Chang De Investment and Management Partnership (Limited Partnership)* (濟南同創昌德投資管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC on 20 December 2016. The general partner is Xu Jianjun (徐建軍), our executive Director, holding as to 15.873% interest at the time of its establishment

"Tong Chuang Sheng De LP"	Jinan Tong Chuang Sheng De Investment and Management Partnership (Limited Partnership)* (濟南同創盛德投資管理合伙企業(有限合伙)), limited partnership established under the laws of the PRC on 20 December 2016. The general partner is Zhang Ping (張平), a member of our senior management, holding as to 0.316% interest at the time of its establishment
"Tong Chuang Shun De LP"	Jinan Tong Chuang Shun De Investment and Management Partnership (Limited Partnership)* (濟南同創順德投資管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC on 20 December 2016. The general partner is Yang Shufeng (楊書峰), our executive Director, holding as to 2.290% interest at the time of its establishment
"Tong Chuang Xing De LP"	Jinan Tong Chuang Xing De Investment and Management Partnership (Limited Partnership)* (濟南同創興德投資管理合伙企業(有限合伙)), a limited partnership established under the laws of the PRC on 20 December 2016. The general partner is Guo Lei (郭雷), our executive Director, holding as to 64.755% interest at the time of its establishment
"Track Record Period"	for the three financial years ended 31 December 2018 and the five months ended 31 May 2019
"Trademark Licensing Agreement"	the trademark licensing agreement entered into between Meide and our Company dated 31 March 2019
"Tube Industry Investments"	Tube Industry Investments Limited, a company incorporated under the laws of Hong Kong on 23 January 2019 and is an indirectly wholly-owned subsidiary of our Company after completion of the Reorganisation
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"U.S.", "US" or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"U.S. Trade Law Legal Adviser"	DLA Piper Singapore Pte. Ltd., the legal adviser of our Company as to U.S. trade laws in connection with the Listing
"U.S. Securities Act"	the United States Securities Act 1933, as amended or supplemented from time to time
"USD" or "US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States

"Vietnam Legal Adviser"	RHTLaw Taylor Wessing Vietnam, the legal adviser of our Company as to the laws of Vietnam
"Vietnam Piping"	Viet Nam Piping Industries Company Limited, a company incorporated under the laws of Vietnam on 7 January 2019 and is an indirectly wholly-owned subsidiary of our Company after completion of the Reorganisation
"VND"	Vietnamese Dong, the lawful currency of Vietnam
"**WHITE** Application Form(s)"	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be issued in the applicants' own name
"**White Form eIPO**"	the application for Hong Kong Offer Shares to be registered in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"**YELLOW** Application Form(s)"	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
"Ying Stone"	Ying Stone Holdings Limited, one of our Controlling Shareholders, a company incorporated under the laws of the BVI with limited liability on 8 January 2019, which is wholly-owned by Mr. Kong as his investment holding company
"%"	per cent

In this prospectus, unless the context otherwise requires, the terms "associate", "close associate", "connected person", "connected transaction", "controlling shareholder", "core connected person" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with "" and are provided for identification purposes only.*

This glossary contains explanations of certain terms used in this prospectus. These terms and their meanings may or 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
"ANSI"	the acronym for American National Standards Institute which is an that oversees the development of voluntary consensus standards for products, services, processes, systems, and personnel in the United States
"ANSI C80.1–2005"	the specification for electrical rigid conduit set by ANSI
"ASP"	average selling price
"ASTM"	the acronym for ASTM International (formerly known as American Society for Testing and Materials), which is an international standards organisation that develops and publishes voluntary consensus technical standards for a wide range of materials, products, systems, and services
"ASTM A53"	the standard specification for pipe, black and hot-dipped, zinc-coated, welded and Seamless set by ASTM
"ASTM A733–033"	the standard specification for welded and seamless carbon steel and austenitic stainless steel pip set by ASTM
"assembled piping system"	refers to the manufacturing process that involves the design and manufacture of the entire piping system off-site to a greater degree of finish before transporting the products to the customer's construction site for rapid installation and welding. Only small amount of on-site pipe connecting works are required for fixed welding
"BIM"	Building Information Modelling, a software that makes good use of the three-dimensional (3D) model and visualisation and shares relevant design information and project plans with different professional parties including architects, engineers and contractors which allows them to identify and analyse potential design clashes and resolve them at the initial stage of the construction project

"BS EN 10241–2000"	a British standard which specifies the requirements for pipe nipples from a diameter size from 6 mm to 150 mm
"BSI"	the acronym for British Standards Institution, an independent standard and approval authority in the United Kingdom
"CAGR"	compound annual growth rate
"CFR"	cost and freight, which requires the seller to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier. Under CFR, the seller does not have to procure marine insurance against the risk of loss or damage to the goods during transit
"CIF"	cost, insurance and freight where the seller is responsible to arrange for the carriage of goods by sea to a port of destination, and provide the buyer with the documents necessary to obtain the goods from the carrier, and the risk delivered. The risk of loss of or damage to the goods passes when the goods are on board the vessel
"epoxy"	refers to any of a class of adhesives, plastics, or other materials that are polymers of epoxides
"ERW" or "electric resistance welding"	the acronym for electric resistance welding, a welding technology used in the manufacture of pipes under which pipes are made from strips of hot rolled steel coil which are passed through forming rolls and welded by using heat generated by high frequency electric current passing over the surface of the strips
"ERW steel pipe(s)"	steel pipes formed by utilising ERW technology
"FOB"	free on board, a term of sale whereby the seller delivers when the goods pass the ship's rail at the named port of shipment after which the buyer has to bear all shipping and other costs and tasks in respect of loss of or damage to the goods from that point
"GB" or "GB/T"	national standards which are either mandatory (which are prefixed GB) or recommended (which are prefixed GB/T) and may be identical to or modified from or not equivalent to international standards of the ISO
"GB/T3091"	a Chinese standard which specifies the dimension, shape, weight, technical requirements, test methods, inspection rules and quality certificate of SSAW steel pipe products
"HVAC"	heating, ventilation and air conditioning
"ISO"	the acronym for International Organisation for Standardisation, a worldwide federation of national standards bodies, whose mission is to develop industrial standards that facilitate international trade

"ISO 9001"	the requirements specified by the ISO for a quality management system where an organisation needs to demonstrate its ability to consistently provide product that meets customer and applicable regulatory requirements, and aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable regulatory requirements
"km"	kilometer(s)
"mm"	millimetre(s)
"pipe nipple(s)"	pipe nipples are short pieces of pipes with male threads on each end that can be connected with other pipe fittings. They are widely applied in suction service and low-pressure discharge for liquid transportation
"polyester"	a synthetic resin in which the polymer units are linked by ester groups
"SAW" or "submerged arc welding"	a welding technology used in the manufacture of pipes under which pipes are made from steel plates which are welded using heat supplied from electricity arcs from the electrodes to the strips. This technology is mostly used in the production of large size steel pipes
"standard prefabricated pipe nipples"	refer to short pieces of pipes with male thread on each end that can be connected with other fittings. Depending on the application and request from customers, pre-processed pipes of various materials such as stainless steel pipes, brass pipes or ERW steel pipes are cut to the required sizes. The standard prefabricated pipe nipples have to conform with the customer's required international standards so that they can be directly installed on-site once received by the customers.
"SSAW steel pipe(s)"	spiral submerged arc welded steel pipes which formed by utilising submerged arc welding technology with spiral weld seam, i.e., pipes made from strips of hot rolled steel plates formed helically into cylinders and then welded as they are formed.
"sq.m."	square metre
"ton(s)"	metric ton(s)

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 "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 in "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 strategies and operating plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our capital expenditure and expansion plans;
- our ability to identify and successfully take advantage of new business development opportunities;
- our dividend policy;
- our prospective financial information; and
- the regulatory environment and industry outlook for the manufacturing of standard prefabricated pipe nipple products and steel pipe products.

The words "aim", "anticipate", "believe", "could", "estimate", "expect", "going forward", "intend", "may", "might", "plan", "project", "propose", "seek", "should", "target", "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 performance. Actual results 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:

- any changes in the laws, rules and regulations relating to any aspect of our business or operations;
- general economic, market and business conditions, including the sustainability of the economic growth;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

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 "Risk Factors".

In addition to other information in this prospectus, you should carefully consider the following risk factors before making any investment decision in relation to the Offer Shares. Any of the following risks, as well as other risks and uncertainties that are not yet identified or that we currently think are immaterial, may materially and adversely affect our business, financial condition or results of operations, or otherwise cause a decrease in the trading price of the Offer Shares and cause you to lose part or all of the value of your investment in the Offer Shares.

RISKS RELATING TO OUR BUSINESS

Our business and results of operations may be adversely affected by the imposition of tariff on exports by the countries in which our overseas customers are located

We export a significant volume of standard prefabricated pipe nipple products and steel pipe products during the Track Record Period. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our sales to overseas amounted to approximately RMB87.4 million, RMB361.4 million, RMB559.3 million and RMB180.5 million, representing approximately 19.3%, 38.5%, 46.0% and 43.9%, of our total revenue for the corresponding periods. Due to heightened competition in international trade, foreign countries may from time to time impose anti-dumping or countervailing measures or other trade restrictions such as imposition of duties on any goods exported by the PRC (including our standard prefabricated pipe nipple products and steel pipe products) so as to protect their own industries. There is no assurance that the tax policies of foreign countries will not change in the future. If such change occurs and result in the increase in tax liability on us or on our overseas customers, our business operations and results of operations may be adversely affected.

Due to the imposition of tariffs in various countries, including the United States, some of our competitors may attempt to avoid or minimise their risk exposure to these measures by, among other means, shifting their sales to those markets which do not have tariffs from the original targeted United States markets and/or dumping their standard prefabricated pipe nipple products and steel pipe products with substantial price cut, leading to more intense competition in standard prefabricated pipe nipple and steel pipe manufacturing industry. In addition, any duties imposed by such tariffs may increase the procurement cost of our exported products as compared to those of our competitors from other countries that are not subject to such tariffs. As a result, our competitiveness against such other foreign standard prefabricated pipe nipple products and steel pipe products manufacturers may be adversely affected which may lead to decrease in our exports sales and increase in our cost of sales.

In addition, there has been continuing trade tension between the United States and the PRC, and trade flows for certain products exported from the PRC to the United States were affected. Since 2018, the United States government has imposed additional tariffs on top of the normal tariff rates on certain products imported from the PRC into the United States. The products which are subject to such additional tariffs are set out in the tariff lists published by the USTR, of which the third list of tariff items ("**Section 301 List 3**") containing products including standard prefabricated pipe nipple products, came into effect on 24 September 2018, imposing an additional tariff of 10%. As at the Latest Practicable Date, the level of additional tariffs had increased from 10% to 25% with effect from 10 May 2019. Pursuant to statements from the president of the United States and the USTR, the additional tariffs on Section 301 List 3 were previously expected to increase to 30% effective on 1 October 2019 (although this tariff increase has been deferred in connection with bilateral negotiations between the United States and China). For the three years ended 31 December 2018 and the five months ended 31 May 2019, 0.9%,14.8%, 20.4% and 17.3% of our revenue was derived from the United States by destination of delivery, respectively.

As the United States have initiated proceedings to tariffs on all remaining imports from China in the draft four list of tariff items, we cannot accurately predict when such tariffs will be imposed on our other products by the United States or whether the tariffs will be further increased in the future. If these products, or any other products that we manufacture or import to the United States become subject to the increased tariffs, it could make our products less price competitive to our customers in the United States. This could adversely impact our revenue derived from the United States. Any trade restrictions imposed by the United States on products could significantly increase our customers' purchase costs of our products produced by us in the PRC. Furthermore, we cannot assure you that we will be able to respond quickly to any economic, market or regulatory changes in the United States market, and any failure to do so may cause an adverse effect on our business, financial condition and results of operations.

We rely on our major customers which accounted for a significant portion of our revenue. Any change in our relationship with our major customers may materially and adversely affect our results of operations and financial condition

For the three years ended 31 December 2018, Meide Group was one of our largest customers, which accounted for 23.8%, 14.1% and 7.7% of our total revenue. For the five months ended 31 May 2019, Meide Group accounted for approximately 3.3% of our total revenue. Please see "Business — Our transactions with Meide Group" for details of our business transactions with Meide Group. Save and except our revenue generated from Meide Group, a connected person, our sales to the other four customers among our five largest customers, who were Independent Third Parties, accounted for approximately 15.1%, 24.6% and 23.4% of our total revenue for the three years ended 31 December 2018. We cannot assure you that our customers will continue to do business with us at the same level or at all. Hence, our future growth and expansion depends on our ability to continue securing purchase orders from our potential customers and retain our current customers. We cannot guarantee that our existing customers will continue to engage us. If any of the major customers substantially reduces the volume of its orders or ceases to conduct business with us, our business operation and financial performance would be materially and adversely affected. There is no assurance that (i) our Group will be able to secure new sales contracts or purchase orders to make up for such loss of sales; or (ii) even if we are able to secure other sales contracts or purchase orders, that they would be on commercially comparable terms.

We are subject to the risk of foreign currency fluctuations

Our Group's reporting currency is RMB, while (i) a considerable portion of our revenue was denominated in USD; and (ii) our costs and expenses are mainly denominated in RMB as our major operation is located in the PRC during the Track Record Period. As such, our revenue are converted into RMB for the purpose of preparing financial statements. The value of RMB against USD fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as the fiscal and foreign exchange policies prescribed by the PRC government. Any significant fluctuations in the exchange rates between RMB and USD could materially and adversely affect our results of operations. Any future exchange rate volatility to RMB could expose us to risks of uncertainties in the value of net assets, profits and dividends.

During the Track Record Period, we entered into USD to RMB net-settled foreign currency forward contracts with licensed banks in the PRC to reduce the effects of fluctuating foreign currency exchange rates between USD and RMB. For the year ended 31 December 2018, we had incurred loss on foreign currency forward contracts in the sum of approximately RMB11.7 million. For the five months ended 31 May 2019, we had recorded gains on foreign currency forward contracts in the sum of approximately RMB0.8 million. See "Financial information — Description of selected consolidated statements of financial position items — Financial assets at FVTPL — Foreign currency forward contracts" for further details.

There is no assurance that we may successfully mitigate our exposure to foreign currency fluctuations risks in the future. In the future that we enter into further foreign currency contracts, any losses incurred from any outstanding currency contracts may therefore materially and adversely affect our business, financial condition and results of operations.

Fluctuation in the prices of our major raw materials may have adverse impacts on our financial results

Our operation, to a large extent, depends on a reliable and stable supply of a wide variety of key production materials and supplies from our suppliers including steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastics. Certain raw materials used in our manufacturing are subject to price volatility caused by external conditions, including commodity price fluctuations and changes in government policies. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our cost of raw materials amounted to approximately RMB331.3 million, RMB630.0 million, RMB809.8 million and RMB272.2 million, respectively, which accounted for approximately 89.0%, 87.1%, 86.5% and 85.7% of our total cost of sales respectively for the corresponding periods.

We entered into commodity futures contracts, which we recorded a loss of approximately RMB0.7 million for the year ended 31 December 2018 and a gain of approximately RMB0.5 million for the five months ended 31 May 2019. We cannot assure you that we will be able to effectively manage the risk of price fluctuation of our raw materials at all times. Therefore, if there is a material increase in the price of the raw materials that we require for our manufacturing and processing, we may not be able to shift such corresponding price increase to our customers in a timely manner or at all, and this may have a material and adverse effect on our financial result. We also cannot assure you that our key suppliers will continue to provide us with raw materials at reasonable price, or that our raw material prices will remain stable in the future. As a result, any increase or material fluctuation in the prices of our raw materials could have a material adverse effect on our business, financial condition and results of operations.

If we fail to effectively manage our inventories or estimate accurately the demand for our products, we may face significant excess inventories which may materially and adversely affect our business, financial condition and results of operations

As at 31 December 2016, 2017 and 2018 and 31 May 2019, our inventories amounted to approximately RMB114.2 million, RMB181.8 million, RMB177.8 million and RMB248.5 million, respectively. We cannot assure you that we will not experience any slow movement of inventories, which may result from our reduced sales due to change in customer preference, change of marketing strategy by our major customers or incorrect estimation of the market demand for our products. As such, if we fail to manage our inventories effectively or are unable to dispose of excess inventories, we may face a risk of inventory obsolescence and/or significant inventory write-downs, which may impose pressure on our operating cash flow, and materially and adversely affect our business, financial condition and results of operations.

We rely on our top five suppliers for the supply of raw materials for our manufacturing of standard prefabricated pipe nipple products and steel pipe products. Any change of business relationship with these suppliers may adversely affect our operations and financial results

Our Group's production requires the supply of raw materials comprising primarily steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastic. During the Track Record Period, most of the steel coils and zinc ingots used by our Group were purchased from suppliers in the PRC. As our Group maintains close business relationships with a number of suppliers for principal raw materials and we purchase a large proportion of raw materials from them directly, our Directors believe that we can benefit from assured and in-time deliveries. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our five largest suppliers accounted for approximately 54.1%, 62.9%, 63.7% and 58.4% of our total purchases respectively, and our largest supplier accounted for approximately 19.6%, 21.0%, 24.4% and 22.1%, respectively of our Group's total purchases for the corresponding periods. Given that our production depends on the supply of major raw materials, our Group's business may be affected by decreases in the supply of such raw materials.

Our Directors consider that substantially all of the raw materials used by our Group are readily available from suppliers in the PRC market. As our standard prefabricated pipe nipple products and steel pipe products are produced based on committed orders from our customers with different specifications such as length, outside diameters, wall thickness and quality of steel to be used, we order our raw materials on a case-by-case basis according to our customers' needs. In order to obtain better pricing terms from suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials. However there is no assurance that our Group will be able to secure stable and sufficient supply of raw materials including steel coils, pre-processed pipes, zinc ingots and consumables such as joints and plastics (or at a stable price) from these suppliers in the future. The supply of the above raw materials may be affected by factors that are beyond our control, such as the changes in the rules and regulations in the PRC, and any fluctuations in the supply of steel may adversely affect our operations and financial condition. As such, we cannot assure you that we will continue to have steady and adequate supply of raw materials in the future. If we are unable to secure steady and adequate supply of raw materials (and in time deliveries thereof), our Group's business, financial condition and results of operations may be materially adversely affected.

We are subject to risks associated with conducting business overseas

During the Track Record Period, we sold our products overseas. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our sales to overseas customers amounted to approximately RMB87.4 million, RMB361.4 million, RMB559.3 million and RMB180.5 million, respectively, representing approximately 19.3%, 38.5%, 46.0% and 43.9% of our total revenue, respectively for the corresponding periods. Our overseas sales will expose us to various risks associated with conducting business in foreign countries and territories, which may include, among other things, (i) an increase in competition from foreign players or failure to anticipate changes to the competitive landscape in overseas markets due to lack of familiarity with the local business environment; (ii) the infringement of our intellectual property rights in foreign jurisdictions; (iii) political risks, including civil unrest, acts of terrorism, acts of war, regional and global political or military tensions and strained or altered foreign relations, which may lead to interruptions in our business operations and/or loss of property; (iv) economic, financial and market instability and credit risks; (v) difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations; (vi) economic sanctions, trade restrictions, discrimination, protectionism or unfavourable policies against companies from the PRC; (vii) exposure to litigation or third-party claims outside of the PRC; (viii) foreign currency exchange controls and fluctuations; and (ix) unfavourable tax conditions.

Any of the above factors could lead to, among other things, business disruptions and loss of sales, which could have a material and adverse effect on our business, results of operations and overall growth strategies.

Our business and results of operations may be adversely affected if any of our activities are alleged or determined to have violated International Sanctions, if our Company becomes subject to International Sanctions, or if our Company alters its activities to reduce risks of violating International Sanctions

As at 31 May 2019, we had more than 320 customers, most of which are located in the PRC and the rest are spread across over 35 overseas countries around the globe. We could be adversely affected as a result of our sales to certain countries that are, or could in the future become, subject to International Sanctions administered by the United States, Australia, the United Kingdom, or other member states of the European Union acting pursuant to European Union directives, and by sanctions authorities of other countries.

The United States, Australia, the United Kingdom, and other member states of the European Union acting pursuant to European Union directives, as well as other countries, have adopted comprehensive or broad International Sanctions against certain Sanctioned Countries, or against specific Sanctioned Persons.

In addition, certain countries, including the United States, have adopted "secondary" International Sanctions against entities or individuals in third countries that continue to have relationships with the primary targets of International Sanctions. Moreover, certain countries, including the United States, have implemented or interpreted International Sanctions to apply extraterritorially to the worldwide conduct of persons other than the citizens or residents of the sanctioning country or entities organised under the laws of the sanctioning country on various legal grounds. Our results of operations could be adversely affected if any of our business activities were determined to have violated International Sanctions if (i) our Company were to become a target of primary sanctions or secondary International Sanctions; (ii) our Company were subject to penalties for violating International Sanctions or subject to investigation for alleged or suspected violations; and (iii) our Company were to alter its business to reduce the risk of violations of International Sanctions.

We cannot predict the interpretation or implementation of government policy or legislation with respect to International Sanctions at the national, state or provincial, or local levels in the United States, Australia, the United Kingdom, or other member states of the European Union, or other jurisdictions. We cannot assure you that our future business will be free of risk under International Sanctions implemented in these or other jurisdictions, or that we will conform our business to the expectations and requirements of the United States authorities or the authorities of any other government that have implemented or interpreted International Sanctions to apply extraterritorially. Many International Sanctions are reviewed or amended by implementing authorities from time to time, and new requirements or restrictions are often implemented with immediate or prompt effect. In addition, because many sanctions programs are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated relevant International Sanctions, or being subject to International Sanctions.

Our business and reputation could be adversely affected if any government authority were to allege or determine that any of our activities constitutes a violation of International Sanctions administered by the United States, Australia, the United Kingdom, or other member states of the European Union acting pursuant to European Union directives, or by other government authorities. Similarly, our business and reputation could be adversely affected if any government authority were to determine that our Company should be subject to primary or secondary International Sanctions administered by the United States, Australia, the United Kingdom, or other member states of the European Union acting pursuant to European Union directives, or by other government authorities. In the event that Group is deemed to violate International Sanctions laws in the future, or alters its business operations to reduce the risks of violating International Sanctions, our business and financial condition may be adversely and materially affected.

We are dependent on distributors for the sales of our products

During the Track Record Period, we entered into various legally-binding distributorship agreements with our distributors in relation to our domestic sales. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the total revenue generated from sales through distributors amounted to approximately RMB70.3 million, RMB154.2 million, RMB140.3 million and RMB36.7 million, respectively, representing approximately 15.5%, 16.4%, 11.6% and 8.9% of our total revenue, respectively for the corresponding periods.

There is no assurance that we will be able to renew our distributorship agreements on commercially reasonable terms with our distributors, or at all. Our distributors may choose not to renew our distributorship agreements or enter into new distributorship agreements with us for reasons unrelated to us, such as a change to their business strategies. If any of our distributors were to terminate its business relationship with us entirely, there can be no assurance that we would be able to secure another distributorship agreements to replace any such loss or that, if we were to be able to secure other distributorship agreements, they would be on commercially reasonable terms. Any reduction in or termination of business dealings with our distributors would materially and adversely affect our business, financial condition, results of operations and growth prospects.

In addition, we do not have control over our distributors, and there is no assurance that our distributors will not breach distributorship agreements or will comply with their obligations thereunder, including those with respect to our retail policies. If our distributorship agreements cannot be renewed or if our distributors breach any of the terms thereunder, our business, results of operations and financial condition may be materially and adversely affected.

Our cash flow position may deteriorate owing to a mismatch between the time receipt of payments from our customers and payments to our suppliers if we are unable to manage our cash flow mismatch properly

We have to purchase raw materials from our suppliers from time to time based on our procurement policy. We rely on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on the prompt settlement of our payments. As at 31 December 2016, 2017, 2018 and 31 May 2019, we recorded trade receivables and trade receivables backed by bills (less allowance of impairment loss) amounted to approximately RMB115.4 million, RMB213.9 million, RMB215.4 million and RMB184.9 million, respectively, and the number of our average trade receivables (net of allowance of impairment loss) and trade receivables backed by bills turnover days was approximately 74 days, 64 days, 64 days and 73 days for the corresponding periods. As at 31 December 2016 and 2017, our Group's trade receivables of approximately RMB36.4 million and RMB23.8 million were past due but not impaired, respectively, and approximately 92.1% of the trade receivables as at 31 May 2019 had subsequently been settled as at 30 September 2019. On the other hand, we generally grant our customers credit terms within the range of 0 to 180 days, while the credit period granted by our suppliers to us was generally 30 days. As at 31 December 2016, 2017, 2018 and 31 May 2019, our trade and bills payables amounted to approximately RMB35.6 million, RMB85.1 million, RMB51.6 million and RMB41.9 million, respectively. For further details, please see "Financial information — Trade receivables and trade receivables backed by bills" and "Financial information — Trade and bills payables". It is possible that we may experience a cash flow deficit in the future if the settlement schedule of our customers falls far behind from our payment schedule to our suppliers.

As we are subject to the credit risks of our customers and our liquidity and cash position are dependent on the timely settlement of payments by our customers, we cannot assure you that our customers will pay us on time and that they will be able to fulfil their payment obligations. Our customers' sizeable operation and long bill settlement procedures may lead to a longer settlement period of accounts receivable which may in turn adversely affect our liquidity position and financial condition. Should we experience any unexpected delay or difficulty in collecting trade receivables from our customers, our results of operations and financial condition may be adversely affected.

If we fail to manage the aforesaid cash flow mismatches, or cannot function properly or at all, or if the cash flow mismatch is further aggravated, we may have to resort to reserve further funds from our internal resources and/or obtain banking facilities to meet our payment obligations, and our financial condition may be materially and adversely affected as a result.

We are subject to the credit risks of our customers

The contract assets primarily relate to our Group's right to consideration for work completed and not billed under the relevant contracts, and their rights are conditioned on the factors other than passage of time. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

Our trade receivables were approximately RMB94.6 million, RMB166.0 million, RMB165.1 million and RMB165.8 million at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively, our trade receivables backed by bills were approximately RMB20.8 million, RMB47.9 million, RMB50.2 million and RMB19.2 million, respectively, while our contract assets were approximately RMB4.7 million, RMB7.1 million, RMB18.8 million and RMB14.0 million at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. The continuous increase in contract assets as at 31 December 2016, 2017 and 2018 was primarily because (i) the products sold in previous year are still within the retention period; and (ii) the accumulation of retention money from new products sold. Please see "Financial Information — Description of Selected Consolidated Statements of Financial Position Items" for further details.

As at Latest Practicable Date, approximately RMB3.7 million or 26.5% of contract assets as at 31 May 2019 had been fully certified. As such, our business and financial results are dependent on the creditworthiness of our customers. Should the creditworthiness of our customers deteriorate or a significant number of our customers fail to certify or settle their payments for any reason, we may incur impairment losses and our financial position and results of operations could be materially and adversely affected.

During the Track Record Period, we have incurred certain impairment losses in this regard. Impairment losses on trade receivables and contract assets amounted to approximately RMB1.5 million, RMB2.8 million, RMB92,000 and RMB0.5 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. Please see "Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss — Impairment losses on trade receivables and contract assets" for further details.

We may not be able to implement our quality control systems effectively, which would result in our failure to conform with the requisite standards in relation to our products

The quality of our products is crucial to the success of our business and depends significantly on the effectiveness of our quality control systems, which in turn, relies on a number of factors, including the procedures and criteria we apply in the selection of our raw material, our quality control training programme, and our employees' awareness in adhering to our quality control policies and guidelines. Any significant failure or deterioration of our Group's quality control systems could result in the production of defective or substandard products, delay in delivery of our products, replacement of defective or substandard products and damage to our reputation.

If our products do not meet the specifications and requirements of our customers, who are mainly gas and HVAC companies, water supply companies and distributors and wholesalers who on-sell our products to their own customers, or if our products are defective, or result in our customers suffering losses as a result of our products, we may be subject to product liability claims. During the Track Record Period, we had experienced one incident in relation to product quality of our steel pipe products which we had made monetary compensation in the total sum of approximately RMB0.9 million to one of our customers. See "Business — Our Customers — Warranty" for further details. We cannot assure you that we can prevent the re-occurrence of such incidents. In such case, we may have to incur significant costs in liaising with our customers for ratifying such defective products and/or making compensations. We may also incur significant legal costs regardless of the outcome of any claim of alleged defect. Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in a decrease in the sale of our products, or claims or litigation against us regarding the quality of our products. As a result, it may have a material adverse effect on our business, reputation, financial condition and results of operations.

In addition, our Group has received certifications relating to quality management standards including but not limited to the ISO 9001 certification, ISO 14001 certification and OHSAS 18001 certification. Accordingly, any significant failure or deterioration of our quality control systems could result in a loss of such recognitions and certifications, which in turn may have a material adverse effect on our sales performance, reputation and prospects.

We engage third party logistics providers to deliver our products and our customers may claim us for the loss or damage to our products during delivery

During the Track Record Period, we outsourced the delivery of our products to independent logistics providers for transportation from our production facilities to the port for exporting. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our delivery cost in engaging third party logistics providers accounted for approximately 69.2%, 78.5%, 67.0% and 70.7%, respectively of our total distribution and selling expenses.

The logistics providers are responsible for any loss or damage to our products during delivery and are responsible for the insurance coverage in respect of our products delivered by them. The services provided by the logistics providers could be interrupted by various reasons beyond our control, including poor handling by the logistics providers, transportation bottlenecks, adverse weather conditions, natural disasters, social contests and labour strikes. There is no assurance that the logistics providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there are any loss or damage to our products during delivery and the logistics providers do not have sufficient or any insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be liable for substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

The preferential tax treatment we currently enjoy is subject to review and approval by the PRC tax authority. If the preferential tax rate reduces or if we no longer enjoy the preferential tax treatment in the future, our net profits and cash flow will be adversely affected

During the Track Record Period, our PRC operating subsidiaries, Jinan Mech and Jinan Ma Steel, have been granted the status of "High- and New-Technology Enterprise (高新技術企業)" and, according to the applicable PRC laws and regulations, Jinan Mech and Jinan Ma Steel will be entitled to the reduced EIT rate of 15.0% after obtaining consent from the local tax authorities. Jinan Mech and Jinan Ma Steel have obtained the consent to the aforesaid tax reduction from local tax authorities for such periods since 2017 and 2015 respectively, and are subject to review and approval by the tax authorities every three years. The current status of Jinan Mech and Jinan Ma Steel as "High-and New-Technology Enterprise" and its entitlement to the reduced EIT rate will expire on 27 December 2020 and 29 November 2021, respectively.

There is no assurance that the PRC policies on preferential tax treatments will not change or that the current preferential tax treatments we enjoy will not be cancelled. If such change or cancellation occurs, the resulting increase in our tax liability would have an adverse effect on our net profits and cash flow.

There is no assurance that our business strategies and future plans will be successfully implemented

The successful implementation of our business strategies and future plans may be hindered by risks set out in this section and is subject to numerous factors, including but not limited to:

- our ability to retain our existing customers and secure new customers;
- our ability to adapt to changing industry and market trends;
- the availability of management and financial resources;
- our ability to negotiate favourable terms with our major suppliers and customers;
- our ability to hire and retain skilled personnel to manage and operate our business; and
- the increase in labour costs.

For details of our business strategies and future plans, see "Business — Our business strategies". There is no assurance that we will be able to successfully implement our business strategies or future plans or such strategies or plans will result in increase in revenue or profits as expected. In addition, our expansion plans may place substantial demands on our management and our operational, technological, financial and other resources. We cannot assure you that we will be able to manage any future growth effectively and efficiently, and our ability to capitalise on new business opportunities may be adversely affected if we fail to do so, which would in turn adversely affect our business, financial condition, results of operations and prospect.

Our Group relies on the use of our machinery and equipment to carry out the manufacturing or processing of standard prefabricated pipe nipple products and steel pipe products and any breakdown of such machinery and equipment will disrupt our operation

The manufacturing of our standard prefabricated pipe nipple products and steel pipe products requires the use of a wide range of machinery and equipment such as welder and shifting machinery. Accordingly, the number of products that can be produced by our Group at any given time, is limited by the availability of our resources such as the functionalities of our machinery and equipment to carry out the production process. On the other hand, if there are any unexpected breakdowns of our machinery and equipment during the production process, we may face difficulties in sourcing replacements or repairing the machinery and equipment in time. Our work progress may have to be delayed, whereby we may have to compensate our customers according to the terms of the contract between our customers and us.

Any unanticipated or prolonged interruption of our production facilities, production machinery and equipment would materially and adversely affect our business and results of operations

During the Track Record Period, our standard prefabricated pipe nipple products and steel pipe products were manufactured at our production plant in Jinan, Shandong Province, the PRC where most of our production machinery and equipment are situated. In January 2019, our production facility in Vietnam had also commenced operation. The machinery and equipment in our production plant are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortages, strikes, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our production plant happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner, or at all. As a result, our relationships with our customers could be adversely affected due to our failure and we may be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial condition and results of operations.

Furthermore, our ability to maintain our profitability depends partly on our ability to maintain a high utilisation rate of our production machinery and equipment in our production plant, Any prolonged interruption of our production facilities, production machinery and equipment may affect the level of utilisation rate of our production machinery and equipment which may in turn impact on our operating results as a certain percentage of our costs of sales such as direct labour and production overhead are fixed in nature. A higher utilisation rate of our production machinery and equipment allows us to spread our fixed costs over a larger quantity of our standard prefabricated pipe nipple products and steel pipe products, resulting in a higher profit margin. Hence, if we are unable to continuously maintain a high utilisation of our production machineries and equipment, our profit margin would be adversely affected.

Our historical results may not be indicative of our future revenue and profit margin

Given that our profit margins in respect of our products are dependent on the price of our quotation provided to our customers, which may be affected by the factors that are specific to the our customers' projects, such as the time gap between the date of our quotation and the delivery of our products and the specifications provided by the customers, there is no assurance that we will always be able to maintain similar levels of profitability as those during the Track Record Period.

During the Track Record Period, our gross profit amounted to approximately RMB79.9 million, RMB214.7 million, RMB279.2 million and RMB93.6 million, respectively, and our overall gross profit margin amounted to approximately 17.7%, 22.9%, 23.0% and 22.8%, respectively for the corresponding periods. We may not be able to sustain our historical gross profit and gross profit margin for various reasons, including but not limited to our Group's ability to cope with the changing demand and requirements from customers and the cost of our raw materials. Also, if our revenue mix changes and a product with lower gross profit margin gains larger proportion in our total revenue, our overall gross profit margin may be adversely affected. For detailed analysis of our Group's gross profit and gross profit margin, see "Financial Information — Description of selected items in consolidated statements of profit or loss — Gross profit and gross profit margin".

Furthermore, during the Track Record Period, our revenue amounted to approximately RMB452.3 million, RMB938.2 million, RMB1,214.8 million and RMB411.4 million, respectively, and our net profit amounted to approximately RMB24.2 million, RMB77.6 million, RMB101.5 million and RMB32.3 million, respectively for the corresponding periods. Such trends of the historical financial information of our Group is only an analysis of our past performance. It does not have any positive implication, nor would it necessarily reflect our financial performance in the future, which will largely depend on our capability to secure new purchase orders, control our costs and expenditures. The profit margins and income of our Group may fluctuate from time to time, and the historical revenue in the past may not be indicative of our future revenue or profitability. Prospective investors should be aware of the risk of our Group's failure to secure future purchase orders when considering our Group's financial results.

We may not be able to obtain adequate financing for the development of our business in the future

The daily operation of our business requires intensive working capital and we also require capital investment to purchase machinery, equipment and vehicles for our business growth. During the Track Record Period, we relied on our internal financial resources and borrowings to maintain our cash flow and satisfy the needs of our production.

We cannot assure you that we will be able to obtain bank loans and/or other equity or debt financing on commercially reasonable terms and/or on a timely basis following the Listing. If we are unable to obtain necessary financing or obtain such financing on favourable terms due to various factors beyond our control, we may not have sufficient funds to develop our business and the future prospect and growth potential of our Group may be adversely affected.

We rely on our key management personnel

Our success and growth are, to a large extent, attributable to the continued commitment of our members of senior management team and our capability to identify, hire and retain suitable and qualified employees, including management personnel with the necessary industry expertise. Notwithstanding our efforts to reward them for their service and contribution to our Group, there is no assurance that our compensation packages and incentive schemes will successfully attract and retain key personnel. Any unanticipated departure of our members of senior management team may have an adverse impact on our business operations and profitability.

The future capital expenditure of our Group for the purchase of machinery and equipment may result in an increase in our depreciation expenses

Our Group intends to use approximately HK$37.3 million and HK$31.8 million of the net proceeds from the Global Offering to upgrade our existing SSAW steel pipe production line and purchase machinery for setting up new production lines for our ERW steel pipe production in order to expand our production capacity, respectively. For more details, see "Future Plans and Use of Proceeds". Such upgrade and addition of production lines may increase our depreciation expenses, and may therefore adversely affect our Group's future results of operations and financial performance. Furthermore, any unexpected requirement for the acquisition of additional production lines would have a negative impact on the cash level of our Group and the additional depreciation expenses may adversely affect our Group's financial performance in the future.

We may be unable to recover retention money from our customers

Customary in our industry, a portion of the contracted value, which is generally 5.0% or 10.0% of the contracted value, will usually be withheld by our customers as retention money for a period from six months to 24 months after the delivery of our standard prefabricated pipe nipple products and steel pipe products as a warranty provision against any major quality defects in the products we have sold. Pursuant to the sales contracts with our domestic customers, such retention money will be paid or released if during the warranty period, our standard prefabricated pipe nipple products and steel pipe products do not manifest any major quality problem. There can be no assurance that we will be able to recover all or any of the amounts retained by our customers for warranty purposes in future. If we are unable to recover a significant portion of the amounts retained by our customers, our results of operations and financial condition may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights and may be exposed to third-party claims of infringement or misappropriation of intellectual property rights

We consider that our brand, the design of our products, our patents and other intellectual property rights are crucial to our success. As at the Latest Practicable Date, our Group had 59 patents registered in the PRC. We cannot assure you that the steps we have taken to protect and safeguard our intellectual property rights are adequate or that our intellectual property rights will not be infringed by any third party in the future. Any unauthorised use of our intellectual property rights may harm our brand image and reputation, which may have an adverse effect on our business performance and results of operations. We may resort to legal proceedings in order to protect and enforce our intellectual property rights and the legal fees and expenses involved in such proceedings can be substantial. Furthermore, the diversion of resources and our management's effort and attention in addressing such intellectual property claims may significantly affect our business performance and hinder our business development.

The success of our business also depends on our ability to operate without infringing the intellectual property rights of third parties. We may be subject to litigation involving claims of patent infringement or violation of intellectual property rights of third parties. The defence of intellectual property lawsuits, patent opposition proceedings and related legal and administrative proceedings can be costly and time consuming. An adverse judgement in any such proceedings may result in substantial liability on us and we may be subject to injunctions prohibiting the production or sale of our products. In addition, we may be required to re-design our products or obtain licences from third parties at a substantial cost. In these circumstances, our reputation, financial condition and results of operations may be materially and adversely affected.

We recorded net current liabilities as at 31 December 2016 and we may expose ourselves to liquidity risk if we experience net current liabilities in the future

We recorded net current liabilities of approximately RMB10.4 million as at 31 December 2016. The net current liabilities position was mainly attributable to the increase in borrowings by approximately RMB300.1 million at the end of 2016 for conducting its ordinary course of business. There is no assurance that we will not record net current liabilities in the future. We may not have sufficient working capital to meet our current liabilities or expand our operations as anticipated. In such circumstances, our liquidity, results of operations, financial condition and prospects may be materially and adversely affected.

We had net operating cash outflow from our operating activities for the year ended 31 December 2016 and the five months ended 31 May 2019 and may face financial difficulties in the future if we fail to maintain effective cash flow management

We had net cash outflow from operating activities of approximately RMB24.1 million and RMB21.2 million for the year ended 31 December 2016 and the five months ended 31 May 2019, respectively. For further details, see "Financial information — Liquidity and capital resources — Cash flow — Operating activities". We cannot assure you that we will be able to generate cash inflows from operating activities. Our liquidity and financial position may be materially and adversely affected by operating cash outflows and we cannot assure you that we will have sufficient cash from other sources to fund out operations. If we resort to other financing activities to generate additional cash, we may incur financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

Our structured bank deposits at fair value through profit or loss are subject to fair value changes and not principal-protected, which may affect our financial positions in the future

As at 31 December 2016, 2017 and 2018, and 31 May 2019, our structured bank deposits at fair value through profit or loss amounted to approximately RMB1.0 million, RMB4.0 million, RMB86.2 million and RMB14.5 million, respectively. The fair value gains arising from changes in fair values of structured bank deposits at fair value through profit or loss were recognised in our consolidated statements of profit or loss. See "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Financial assets at FVTPL" for further details.

The fair value of our structured bank deposits at fair value through profit or loss is measured based on assumptions that are not supported by observable market values (i.e. significant unobservable inputs). During the Track Record Period, fair value of our structured bank deposits at fair value through profit or loss was determined with reference to unobservable input which is estimated return and was categorised as level 3 of fair value measurement. See Note 39(c) to the Accountants' Report in Appendix I to this prospectus for further details. Changes in this unobservable inputs will affect the estimated fair value of our structured bank deposits at fair value through profit or loss at the end of each of the financial reporting year. Given the inherent uncertainties in measuring the fair value of our structured bank deposits at fair value through profit or loss, any material and adverse changes in fair value could materially and adversely affect our financial position and results of operations.

The structured bank deposits are placed with banks in the PRC and are short-term investments with no predetermined or guaranteed return and are not principal-protected. The return of these deposits are determined by reference to the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets. Any adverse changes in market price of underlying financial instruments could materially and adversely affect our financial position and results of operations.

We are uncertain about the recoverability of our deferred tax assets

As at 31 December 2016, 2017 and 2018, and 31 May 2019, our deferred tax assets amounted to approximately RMB2.9 million, RMB1.2 million, RMB1.8 million and RMB1.4 million, respectively, which represented the impairment losses of trade receivables, tax losses and impairment losses of inventories. For details of the movements of our deferred tax assets during the Track Record Period, see Note 15 to the Accountants' Report in Appendix I to this prospectus. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. This require significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered. In this context, we cannot guarantee the recoverability or predict the movement of our deferred tax assets, and to what extent they may affect our financial positions in the future.

Our research and development may not be able to catch up with the evolving technological advancements

Our competitiveness is substantially dependent on our ability to (i) upgrade our existing products and develop new products in response to technological advancements and changes in customers' preferences and market demand; and (ii) enhance our production capabilities and efficiency. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the amount we incurred in research and development was approximately RMB21.9 million, RMB33.8 million, RMB50.0 million and RMB17.6 million, respectively, representing 4.8%, 3.6%, 4.1% and 4.3% of our total revenue, respectively for the corresponding periods. There is no assurance that we will be able to invest the same amount of resources in research and development in the future. There is also no assurance that our future research and development efforts and projects will be successful or be completed within the expected time frame or budget, or that our newly developed products will achieve commercial success. Even if such products can be successfully commercialised, there is no guarantee that they will gain market acceptance or recognition. In addition, there is no assurance that our existing and/or potential competitors will not develop products which are similar or superior to our products and which may serve as substitutes for our products. Given the difficulty in assessing and projecting the time frame for developing new products and the market demand for these products, there is a substantial risk that we may have to discard products that are no longer commercially viable or making profit, despite the substantial time and resources we may have invested in the research and development of such products.

RISKS RELATING TO THE INDUSTRY IN WHICH WE OPERATE

Our business operations are subject to various environmental, health and safety laws and regulations and we may fail to control the costs associated with more stringent standards of these laws and regulations

Our business operations are subject to various environmental, occupational health and safety laws, regulations and government policies promulgated by the PRC government. See "Regulatory Overview" for further details.

We are required to undergo environmental impact assessments and review processes and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of our production facilities. The environmental, occupational health and safety laws, regulations and government policies applicable to our business operations and products are constantly evolving and we cannot predict when or how they will be amended, nor the consequence or impact thereof. There is no assurance that the PRC government or the relevant government authorities in the PRC will not impose additional or more stringent laws, regulations or government policies in the future, which may subject us to more onerous duties and obligations. In the event that the PRC government imposes more stringent environmental, occupational health and safety laws, regulations and government policies, our production and distribution costs may increase, or we may be forced to curtail or suspend production or to incur material capital expenditures or other costs to remain in compliance and we may be unable to pass on these additional costs to our customers. Any change or amendment to these laws, regulations or government policies may require us to incur substantial financial or other resources to adjust our production process, introduce new preventive or remedial measures, purchase new pollution control equipment and update our compliance and monitoring systems in order to ensure compliance, which may have a negative impact on our results of operations and financial condition.

Personal injuries, property damages or fatal accidents may occur at work sites

Although we generally supervise and monitor closely our employees in the implementation of all safety measures and procedures during the manufacturing process, we cannot guarantee that our employees will follow our safety measures and/or will not breach any applicable laws, rules or regulations. Our Group may be exposed to the risk of industrial accidents at our production plant in Jinan, Shandong Province, the PRC. Although we have enforced our safety measures and are covered by insurance under normal market practice, there is no guarantee that industrial accidents may not occur in the future, which may result in suspension of the operation in our production plant, damaging our plant or machinery, and giving rise to potential liability to our employees, our customers or third parties.

Nevertheless, we might be exposed to claims in respect of matters that are not covered by the insurance policies we maintained. In addition, as to the insurance policies we maintained, there may be circumstances (such as fraud, gross negligence, natural disasters and acts of God) in which certain loss and claims would not be covered adequately, or at all. Any personal injuries and/or fatal accidents to the employees of our Group may lead to claims or other legal proceedings against our Group. As at the Latest Practicable Date, our Group was not subject to any material claims from employees.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

As most of our Group's assets, business operations and manufacturing facilities are in the PRC, its economic, political and legal developments would affect the results of operations, financial position and prospects accordingly. The major risks that we are exposed to are as follows:

Our business operations are subject to uncertainties with respect to the laws and regulations, social, political and economic development, and the PRC government policies

Our business and operations in the PRC are governed by the laws of the PRC. The PRC law is a codified system which comprises of statutory laws, regulations, circulars, administrative directives and internal guidelines. Some of them, and the interpretation, implementation and enforcement thereof, are still at the experimental stage and are therefore subject to policy changes. In the event that our PRC subsidiary breaches any of the foregoing, whether by omission or not, we will be subject to penalties prescribed therein.

As our major production facilities are located in the PRC, our operations will be subject to the risks of regional conflicts, terrorism, extremism, nationalism, changes in interest rates, imposition of capital controls, changes in government policies or introduction of new rules or regulations concerning construction industry or environmental or manufacturing regulations and methods of taxation in the PRC. Any negative development in the PRC economy may have a material adverse effect on business. Although the overall PRC economic environment (in which our Group predominantly operates) appears to be positive, there can be no assurance that this will continue to prevail in the future.

Furthermore, the manufacturing of standard prefabricated pipe nipple products and steel pipe products may affect the environment in the neighbourhood of our production plant in Jinan, and the PRC government may tighten regulations governing our industry to meet more stringent environmental requirements. It may expand the scope of existing regulations, tighten the rules governing the licence renewal process or even impose requirements to install certain equipment; these new measures may limit our Group's flexibility to operate and may increase our Group's operating costs. Our Group's failure to comply with such laws and regulations could also result in reprimands, penalties, fines and legal proceedings against us.

We require various permits, licences, approvals, certificates and qualifications to operate our business and any failure to obtain or renew any such permits, licences, approvals, certificates and qualifications may materially and adversely affect our business operations

In accordance with the PRC laws and regulations, we require various permits, licences, approvals, certificates and qualifications in order to carry on our business operations in the PRC, including our manufacturing licence, business premises licence and approval granted by the relevant government authorities. These permits, licences and approvals may be subject to review and periodic renewal by the relevant governmental or regulatory authorities as well as our continued compliance with certain standards and requirements. We cannot assure you that we will be able to renew all necessary permits, licences and approvals upon their expiration in a timely manner or at all. Non-renewal of, or delay in obtaining, all requisite permits, licences and approvals may disrupt our ongoing business operations, which may have a material adverse effect on our business and results of operations.

We have previous incidents of non-compliances with relevant regulations relating to social insurance and housing provident fund and any enforcement action against us may materially and adversely affect our business, financial condition and results of operations

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), we are required to make contributions to the social insurance plans and the housing provident fund under the relevant PRC laws for our employees. For details relating to these relevant laws, see "Regulatory Overview — Regulations relating to employment and social securities".

During the Track Record Period, we have only made social insurance payments and housing provident fund contribution for some of our PRC employees, and did not make contributions in full for the social insurance fund and housing provident fund for our employees as required under the relevant PRC laws and regulations. As at the Latest Practicable Date, we have not received any order or notice from the local authorities nor any claims or complaints from our current and former employees regarding our non-compliance in this regard. For details, see "Business — Legal proceedings and compliance". We cannot assure you that we will not be subject to any order to rectify non-compliance in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding social insurance payment or housing provident fund contributions against us, or that we will not receive any claims in respect of social insurance payment or housing provident fund contributions under the PRC laws and regulation. In addition, we may incur additional costs to comply with such laws and regulations by the PRC government or relevant local authorities. Any such development could materially and adversely affect our business, financial condition and results of operations.

Our Group's principal subsidiaries are established in the PRC and their main assets are located in the PRC. It could be difficult to enforce a foreign judgment against our the PRC subsidiaries, our Directors and the management in the PRC

As most of our manufacturing process is conducted in the PRC and most of our assets are located in the PRC. In addition, all of our Directors reside within the PRC or Hong Kong. As a result, it may not be possible to effect service of legal processes outside the PRC or Hong Kong (as the case may be) upon them with respect to matters arising under applicable securities laws. Moreover, based on the information provided by the PRC Legal Adviser, our Directors take the view that the PRC has not entered into treaties with the US or a number of countries providing for the reciprocal recognition or enforcement of judgments of foreign courts. In addition, according to the PRC Civil Procedures Law (中華人民共和國民事訴訟法), courts in the PRC will not enforce a foreign judgement if they decide that the judgement violates the basic principle of PRC law or national sovereignty, security or public interest. Therefore, it may be difficult for you to enforce against us and/or our management in the PRC any judgement obtained from non PRC courts.

RISKS RELATING TO CONDUCTING BUSINESS IN VIETNAM

Geopolitical risks may have an adverse impact on our business, financial condition and results of operations

The social conditions and political stability of Vietnam will also have a direct impact on the feasibility in operating our production facilities in Vietnam. Our operations in Vietnam whose economy and legal system remain susceptible to risks associated with an emerging economy and is subject to higher geopolitical risks than developed countries. Unexpected social and political events such as the social unrests in Vietnam targeting Chinese-related businesses, and territorial and other disputes among neighbouring countries in Asia may adversely affect the operations of our production facilities in Vietnam. Any social and political unrests, which are beyond our control, may give rise to various risks, such as loss of employment and safety and security risks to persons and properties and in turn adversely affect Vietnam economy. Any such event may in turn have an adverse impact on our businesses, financial condition and results of operations.

The economy in Vietnam may be subject to periods of high inflation which could materially and adversely affect our business, financial condition and results of operations and growth prospects

Government anti-inflation policies and a decline in global commodity and petroleum prices have led to a decrease in Vietnam's inflation rate. While these inflation rates are lower than rates of earlier years, there can be no assurance that the Vietnamese economy will not be subject to future periods of high inflation. Should inflation in Vietnam increase significantly, our costs, including labour costs and transportation are expected to increase. Furthermore, high inflation rates could have an adverse effect on Vietnam's economic growth, business climate and dampen consumer purchasing power. As a result, a high inflation rate in Vietnam could materially and adversely affect our business, financial condition and results of operations and growth prospects.

RISKS RELATING TO THE GLOBAL OFFERING

No public market currently exists for our Shares; the market price for our Shares may be volatile and an active trading market for our Shares may not develop

No public market currently exists for our Shares. The initial Offer Price for our Shares to the public will be the result of negotiations between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price of the Shares following the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, the Shares. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for the Shares will develop, or if it does develop, that it will be sustained following the Global Offering, or that the market price of the Shares will not decline following the Global Offering.

In addition, the trading price and trading volume of the Shares may be subject to significant volatility in responses to various factors, including:

- variations in our operating results;
- changes in financial estimates by securities analysts;
- announcements made by us or our competitors;
- investors' perception of us and of the investment environment in Asia, including Hong Kong, Vietnam and China;
- developments in the standard prefabricated pipe nipples and steel pipes production market in China;
- changes in the economic performance or market valuations of other standard prefabricated pipe nappies and steel pipes production companies;
- the depth and liquidity of the market for our Shares;

- additions to or departures of, our executive officers and other members of our senior management;
- release or expiry of lock-up or other transfer restrictions on our Shares;
- sales or anticipated sales of additional Shares; and
- the general economy and other factors.

Moreover, shares of other companies listed on the Stock Exchange with significant operations and assets in China have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

You will incur immediate and significant dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of the Offer Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, purchasers of the Offer Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of the Offer Shares may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time.

Future sales or perceived sales of our Shares in the public market by our Controlling Shareholders following the Global Offering could materially and adversely affect the price of our Shares

Prior to the Global Offering, there has not been a public market for our Shares. Future sales or perceived sales by our existing Shareholders, or issuance by us of significant amounts of our Shares after the Global Offering, could result in a significant decrease in the prevailing market prices of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the Global Offering due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price for our Shares and our ability to raise equity capital in the future.

Our Controlling Shareholders have significant influence over our Company and their interests may not be aligned with the interests of our other Shareholders

Immediately upon the completion of the Capitalisation Issue and the Global Offering, our Controlling Shareholders, namely, Mr. Kong and Ying Stone, will control in aggregate approximately 39.788% of our Shares, without taking into account of the shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme. Our Controlling Shareholders will, through their voting power at the Shareholders' meetings and its position on our Board, have significant influence over our business and affairs, including decisions in respect of mergers or other business combinations, acquisition or disposition of assets, issuance of additional shares or other equity securities, timing and amount of dividend payments, and our management. Our Controlling Shareholders may not act in the best interests of our minority Shareholders. In addition, without the consent of our Controlling Shareholders, we could be prevented from entering into transactions that could be beneficial to us. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our Shares.

There will be a gap of several days between pricing and trading of our Shares, and the price of our Shares when trading begins could be lower than the Offer Price

The initial price to the public of our Shares sold in the Global Offering is expected to be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be not more than four business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

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

There may be, subsequent to the date of this document but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering, which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorised the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the Global Offering and any formal announcements made by us in Hong Kong in making your investment decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions as to whether to invest in our Global Offering. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this document and the Global Offering.

In preparation for the Listing, our Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. Our Group's principal business and operations are located, managed and conducted mainly in the PRC through our PRC subsidiaries and none of our executive Directors is ordinarily based in Hong Kong and they will continue to be based in the PRC after the Listing. As a result, our Company does not, and will not, in the foreseeable future, have a sufficient management presence in Hong Kong as required under Rule 8.12 of the Listing Rules. Further, it would be impractical and commercially unnecessary for our Company to appoint additional executive Directors who are ordinarily resident in Hong Kong or to relocate its existing PRC based executive Directors to Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain regular and effective communication with the Stock Exchange, we put in place the following measures:

(i) our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives appointed are Guo Lei, our executive Director, and Leung Wing Lun, our company secretary. Each of the two authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange;

(ii) any meeting between the Stock Exchange and our Directors will be arranged through our authorised representatives or the compliance adviser of our Company or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any changes in our authorised representatives and our compliance adviser;

(iii) each of our authorised representatives will be available to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email;

(iv) each of our authorised representatives has means to contact all members of our Board (including our independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters. To enhance the communication between the Stock Exchange, our authorised representatives and our Directors, we have implemented a policy that (a) each Director will provide their respective office phone numbers, mobile phone numbers, facsimile numbers and email addresses to our authorised representatives; and (b) all of our Directors and authorised representatives will provide, if available, their office phone numbers, mobile phone numbers, facsimile numbers and email addresses to the Stock Exchange. In the event that a Director expects to travel or is out of office, he will provide the phone number of the place of his accommodation to our authorised representatives;

(v) the Directors, who are not ordinarily resident in Hong Kong, have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and are able to meet with the Stock Exchange within a reasonable period of time; and

(vi) in compliance with Rule 3A.19 of the Listing Rules, we have appointed Fortune Financial Capital Limited as our compliance adviser who will, among other things, in addition to our two authorised representatives, act as an additional channel of communication with the Stock Exchange for the period commencing from the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Fortune Financial Capital Limited will have full access at all times to our authorised representatives, Directors and senior management.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, a transaction which will constitute a non-exempt continuing connected transaction of our Company under the Listing Rules upon the Listing. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in relation to such continuing connected transaction between us and certain connected persons under Chapter 14A of the Listing Rules. Please see "Continuing Connected Transaction" for further details of this transaction.

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 (Winding-Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules 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.

PROSPECTUS ISSUED IN CONNECTION WITH HONG KONG PUBLIC OFFER ONLY

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set out herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of our or their respective directors, officers, employees, advisers or agents or any other 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 shall, 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 in this prospectus is correct as at any subsequent time.

INFORMATION ON THE GLOBAL OFFERING

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

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. For applicants in the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Underwriting Agreement relating to the International Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the final Offer Price is not agreed by Thursday, 12 December 2019 (or such later date so agreed by our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see "Underwriting".

RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offer will be required to confirm, and is deemed by his acquisition of Hong Kong Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, 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 of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in China or the United States.

ELIGIBILITY FOR CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply 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 Listing Date or 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. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

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

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange 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 Shares may be issued upon the exercise of any options that may be granted under the Share Option Scheme).

Except as disclosed, no part of our share or loan capital 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 on the Stock Exchange or any other stock exchange as at the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Share Registrar of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

HONG KONG SHARE REGISTER AND THE STAMP DUTY

Our principal register of members will be maintained in the Cayman Islands by our principal share registrar, Tricor Services (Cayman Islands) Limited, in the Cayman Islands, and our Hong Kong register will be maintained by Computershare Hong Kong Investor Services Limited, in Hong Kong. All Offer Shares issued pursuant to applications made in the Hong Kong Public Offer and the International Placing will be registered on the Hong Kong register of members of our Company in Hong Kong.

Dealings in the Shares registered in our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice.

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, dealing in or exercising any rights in relation to, the Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of our or their respective directors, officers, employees, advisers, agents 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 for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The application procedure for the Hong Kong Offer Shares is set out in "How to Apply for Hong Kong Offer Shares" and on the relevant Application Forms.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. However, the English names of certain Chinese names, entities, departments, facilities, certificates, titles, laws, regulations and the like are unofficial translations of their Chinese names and are included for identification purposes only, and if there is any inconsistency, the Chinese name prevails in such cases.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB and USD amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the RMB and USD amounts could actually be, or have been, converted into Hong Kong dollar amounts (as applicable) at the rates indicated or at all. Unless we indicate otherwise, the translations of RMB amounts into Hong Kong dollars have been made at the rate of RMB0.86 to HK$1.00, whereas the USD amounts into HK$ have been made at the rate of US$1.00 to HK$7.75.

ROUNDINGS

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

Please refer to "Directors and Senior Management" for further details of our Directors.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Kong Linglei (孔令磊)	No. 302, Unit 2 Building 27 Huanxiu Community Pingyin County Shandong Province China	Chinese
Guo Lei (郭雷)	3–4/F Unit East 1 Building C4 Huanxiu Villa Pingyin County Shandong Province China	Chinese
Xu Jianjun (徐建軍)	Flat 201, Unit East 1 Building 3 Shui An Lianchen Pingyin County Shandong Province China	Chinese
Yang Shufeng (楊書峰)	No. 401, Unit 5 Building 42 Longshan Community Pingyin County Shandong Province China	Chinese
Independent non-executive Directors		
Liu Fengyuan (劉鳳元)	No.1575 Wan Hang Du Lu Changning Qu Shanghai China	Chinese
Ding Xiaodong (丁曉東)	No.402, Unit 1 Building 6, 38 Shun Geng Lu Shizhong Qu Shandong Province China	Chinese
Ma Changcheng (馬長城)	No.4 Xiapingfang, Floor 1, Jianguo Li, Chaoyang Qu Beijing China	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor	**Fortune Financial Capital Limited** 43/F, Cosco Tower 183 Queen's Road Central Hong Kong
Sole Global Coordinator	**Fortune (HK) Securities Limited** 43/F, Cosco Tower 183 Queen's Road Central Hong Kong
Joint Bookrunners and Joint Lead Managers	**Fortune (HK) Securities Limited** 43/F, Cosco Tower 183 Queen's Road Central Hong Kong
	Livermore Holdings Limited Unit 1214A, 12/F Tower II Cheung Sha Wan Plaza 833 Cheung Sha Wan Road Kowloon, Hong Kong
	Zhongtai International Securities Limited 19/F Li Po Chun Chambers 189 Des Voeux Road Central Central Hong Kong
	First Shanghai Securities Limited 19/F & Room 2505–10, Wing On House 71 Des Voeux Road Central Hong Kong
Co-lead Manager	**CVP Securities Limited** 19/F, 88 Gloucester Road Wanchai, Hong Kong

Legal advisers to our Company

As to Hong Kong law:
Eric Chow & Co. in Association with Commerce & Finance Law Offices
29/F, 238 Des Voeux Road Central
Hong Kong

As to the PRC law:
Beijing Deheng Law Offices
12/F, Tower B, Focus Place
No. 19 Finance Street
Beijing, China

As to the Cayman Islands law:
Maples and Calder (Hong Kong) LLP
53rd Floor, The Center
99 Queen's Road Central
Hong Kong

As to Vietnam law:
RHTLaw Taylor Wessing Vietnam
Unit 1101, 11th Floor
Sofitel Central Plaza
17 Le Duan Boulevard
District 1, Ho Chi Minh City
Vietnam

As to U.S. trade law:
DLA Piper Singapore Pte. Ltd.
80 Raffles Place
#48-01 UOB Plaza 1
Singapore 048624

Legal advisers to the Sole Sponsor and the Underwriters	*As to Hong Kong law:* **Deacons** 5th Floor, Alexandra House 18 Chater Road Central Hong Kong *As to the PRC law:* **Global Law Office** 27th Floor Tower B, China Resources Land Building No. 9668 Shennan Avenue Nanshan District, Shenzhen China
Independent industry consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B 500 Yunjin Road Shanghai, 200232 China
Auditors and reporting accountants	**Deloitte Touche Tohmatsu** *Certified Public Accountants* 35th Floor, One Pacific Place 88 Queensway Hong Kong
Receiving bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

Registered office	Vistra (Cayman) Limited P.O. BOX 31119 Grand Pavilion Hibiscus Way, 802 West Bay Road Grand Cayman KY1-1205 Cayman Islands
Head office and principal place of business in the PRC	No. 4 Meide Street Meigui Zone of Industrial Park Pingyin County Jinan Shandong Province China
Principal place of business in Hong Kong	Unit 629A, 6th Floor Star House, No. 3 Salisbury Road Tsim Sha Tsui, Kowloon Hong Kong
Company's website address	**www.mechpipingtech.com** *(information on the website does not form part of this document)*
Company secretary	Leung Wing Lun (梁穎麟), *HKICPA* Unit 629A, 6th Floor Star House, No. 3 Salisbury Road Tsim Sha Tsui, Kowloon Hong Kong
Audit committee	Ding Xiaodong (丁曉東) *(Chairman)* Liu Fengyuan (劉鳳元) Ma Changcheng (馬長城)
Remuneration committee	Ma Changcheng (馬長城) *(Chairman)* Kong Linglei (孔令磊) Liu Fengyuan (劉鳳元)
Nomination committee	Kong Linglei (孔令磊) *(Chairman)* Liu Fengyuan (劉鳳元) Ma Changcheng (馬長城)

Authorised representatives as to Listing Rules	Guo Lei (郭雷) 3–4/F, Unit East 1 Building C4 Huanxiu Villa Pingyin County Jinan Shandong Province China Leung Wing Lun (梁穎麟), *HKICPA* Unit 629A, 6th Floor Star House, No. 3 Salisbury Road Tsim Sha Tsui, Kowloon Hong Kong
Compliance adviser	Fortune Financial Capital Limited 43/F, Cosco Tower 183 Queen's Road Central Hong Kong
Principal bankers	Industrial and Commercial Bank of China Pingyin Branch No. 11 Yushan Road Pingyin County Jinan Shandong Province China Bank of China Pingyin Branch No. 68 Yushan Road Pingyin County Jinan Shandong Province China China Citic Bank Central City Branch No.69–2 Wei'er Road Central City District Jinan Shandong Province China
Principal share registrar and transfer office	Tricor Services (Cayman Islands) Limited P.O. Box 10008, Willow House Cricket Square, Grand Cayman, KY1-1001 Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

The information and statistics in this section, unless otherwise indicated, are derived from various private and official governmental publications, publicly available sources and the Frost & Sullivan Report, a market research report prepared by Frost & Sullivan and commissioned by our Group. We believe that the sources of the information in this section are appropriate sources for such information, and we 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 prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers (except Frost & Sullivan) or any person or party involved in the Global Offering and they do not give any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE AND RELIABILITY OF INFORMATION

Our Group commissioned Frost & Sullivan, an independent market research company, to conduct an analysis of, and to produce a report on, the pipes manufacturing industry in the PRC for use in this prospectus. Frost & Sullivan is an independent global consulting firm founded in 1961, and offers industry research, market strategies and provides growth consulting and corporate training on a variety of industries. The information from Frost & Sullivan disclosed in this prospectus is extracted from the Frost & Sullivan Report, a report commissioned by us for a fee of RMB600,000, and is disclosed with the consent of Frost & Sullivan.

The Frost & Sullivan Report was undertaken through both primary and secondary research obtained from various sources. Primary research included interviews with industry experts and participants in pipes manufacturing industry in the PRC. Secondary research involved reviewing the statistics published by the government official statistics, industry publications, annual reports and data based on Frost & Sullivan's own database. Frost & Sullivan also adopted the following primary assumptions while making projections on the macroeconomic environment, the pipes manufacturing industry in the PRC:

- The PRC's economy is expected to grow at a steady rate supported by favourable government policies as well as global economic recovery, among other factors; and

- The social, economic and political environment of the PRC is likely to remain stable during the forecast period, which will ensure a sustainable and steady development of the pipes manufacturing industry in the PRC.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. Our Directors confirm that after taking reasonable care, the sources of information used in this section, which are extracted from the Frost & Sullivan Report, are reliable and not misleading as Frost & Sullivan is an independent professional market research agency with extensive experience, and there is no material adverse change in the overall market information since the date of the Frost & Sullivan Report that would materially qualify, contradict or have an impact on such information.

OVERVIEW OF MACRO ECONOMY IN THE PRC AND VIETNAM

Nominal GDP

The nominal GDP of the PRC has increased from USD9,635.0 billion in 2013 to USD13,457.3 billion in 2018, representing a CAGR of 6.9%. Looking forward, the PRC government is expected to reform the economy from an investment-driven model to a consumption-driven economy, with the increase of GDP at a CAGR of 7.8% from 2018 to 2023, reaching USD19,580.6 billion in 2023.

On the other hand, the nominal GDP of Vietnam has recorded USD241.4 billion in 2018, attributable by the surge of manufacturing and services industry within the nation. The GDP is further forecasted to further rise to USD376.2 billion in 2023, representing a CAGR of 9.3% from 2018.

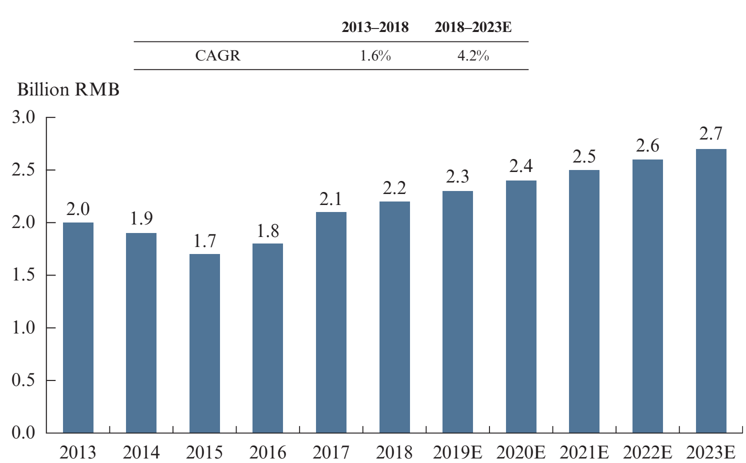
Export Value

The China-US trade tension is estimated to at least last till early 2021 after the US election, then the further development of trade war is depending on the newly elected US government's attitude towards China. The custom rate is estimated at 25%.

However, since decades ago, US has built trade barrier for China's ERW steel pipes, the main import countries of China's steel pipes are Australia and Middle-East countries. Thus the new trade tension has very limited impact on steel pipe export.

Despite of "China-U.S. Trade War" and other trade barriers imposed by European countries against the PRC, the export of ERW has recovered a moderate growth from 2013 to 2018 with a CAGR of 1.6%. Driven by the "One Belt, One Road Policy", the increasing pipeline projects in Africa and South-East Asia, and the shift of PRC's trading strategy, the export size of ERW is expected to increase at a CAGR of 4.2%, reaching RMB2.7 billion in 2023.

Market Size of ERW Pipes Export Market (PRC), 2013–2023E



Source: General Administration of Customs of the PRC, Frost & Sullivan

Municipal Steel Pipes

Municipal pipeline refers to the pipeline system that mainly located in the urban and suburban area, including electric power pipelines, telecommunication pipelines, cable TV pipelines, gas pipelines, HVAC pipelines, water supply pipelines, fire protection pipelines, internal water pipelines, sewage pipelines that mostly laid underground. The municipal pipeline is the fundamental part of the infrastructure, acting as veins to support the development of the urban and suburban area, as well as the development of modernisation. Therefore, the quality requirement of municipal is particularly higher than that of other application scenarios.

Throughout the urbanisation development process over the past 60 years, China‘s urbanisation level has increased from 7.3% in 1949 to 58.0% in 2018. At present, the urban area in China has gradually expanded, and the infrastructure systems, such as gas supply, water supply, HVAC supply, have been continuously improved, expanding the urban population capacity and improving the level of urban modernisation. The distance of HVAC pipelines and water pipelines in urban areas have reached 226,058 km and 630,304 km respectively in 2018.

OVERVIEW OF STEEL PIPES MANUFACTURING

Definition and Segmentation

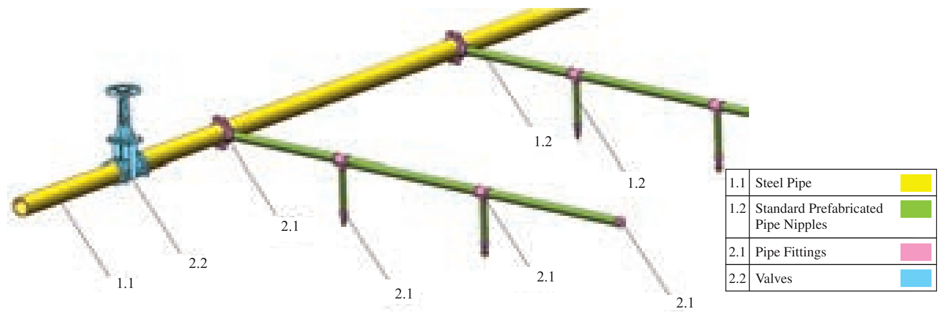
Piping system are generally very sophisticated with many components, including but not limited to pipes, fittings, nipples, and valves, that carries out different function.

Steel pipe refers to a wrought tubular product made of steel, applied in the transportation of flowing material including but not limited to liquid, gas and slurries. It can be further breakdown into seamless steel pipe and welded steel pipes.

Pipe nipple is short piece of pipe with male threads on each end, that can be connected with other fittings. It is neither inter-replaceable nor substitutable with other pipe fittings. Pipe nipple is primarily made by cutting a specific length of pipes and applying the desired pipe threads at each end. The major manufacturing equipment and raw materials varies depending on the type of pipe nipple.

Valve is a mechanical device that controls, regulates, and directs the flow and pressure of the fluid within a pipe system.

Pipe fitting component mainly used in pipe system to (i) connect different straight pipes, (ii) change the direction of flow, and (iii) change the size of the pipes. It is neither inter-replaceable nor substitutable with other pipe nipples. For malleable cast iron fittings, the major manufacturing equipment includes furnace and molding machine, with raw materials being steel scrap and pig iron.



Source: Frost & Sullivan

Segmentation by production methods

- ***Seamless steel pipe***

Seamless pipe is manufactured in a hot forming process by extrusion or drawing, which may be followed by cold-sizing to the desired shape, and has no welded seam. It can bear high pressure, but vulnerable to erosion.

- ***Welded steel pipe***

Welded steel pipe is made through rolling steel plate and weld the seam, and based on the manufacturing technique, it has two primary subsidiaries, namely, ERW (Electric Resistance Welding) and SAW (Submerged-Arc Welding Pipes). In addition, SAW can be further classified as SSAW (Spiral submerged arc welded) steel pipe, and LSAW (Longitudinally Submerged Arc Welding).

o *Electric Resistance Welding (ERW)*

The ERW steel pipe is made from hot rolling steel profiles through pre-bending, continuous bending, welding, straightening, cutting and other processes.

o *Spiral Submerged Arc Welded (SSAW)*

SSAW pipe is made of strip steel with the same specification welded in spiral welding joints, featured with spiral welding joints and the pipes are welded and formed at the same time.

o *Longitudinally Submerged Arc Welding (LSAW)*

LSAW pipe is made of single plate steel through double-sided submerged arc welding.

Segmentation by standards

Being a major type of construction material, steel pipes have various standards, including but not limited to: (i) national standards (國家標準); (ii) industrial standards (行業標準); (iii) association standards (團體標準); and (iv) manufacturers' own standards (公司自行標準) for steel pipe manufacturers to take for references.

Based on the national standard of the PRC (GB and GB/T), steel pipes can be divided into (i) standardised steel pipe and (ii) non-standardised customised steel pipe specifically tailored to order.

- ***Standardised Steel Pipe***

The standardised steel pipe refers to steel pipe manufactured based on general requirements from national standards without any further specific requirement. The national standard sets out a wide range of specifications that manufacturers adheres to, including but not limited to the length, weight, diameter, thickness, groove, and stretchability of steel pipes. Manufacturers of standardised steel pipes are expected to demonstrate market know-how in understanding and producing steel pipes that strictly follows the national standard.

- ***Non-Standardised Customised Steel Pipe***

The non-standardised customised steel pipe refers to steel pipe manufactured beyond general requirements of the national standard, which are customised under specific requirements to satisfy customers' demand. This type of steel pipe is produced with value-added processes, including but not limited to pipe body processing, non-standardised surface treatment, pipe end processing, thickened galvanisation, and internal smoothing.

Market Size by Types of Steel Pipes

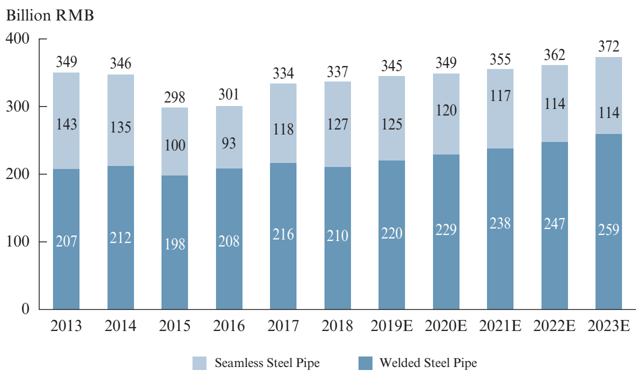
The market size of steel pipes manufacturing in the PRC has recorded a overall CAGR of –0.7% from 2013 to 2018, with a particular slow down experienced in 2015, attributable to the slowdown in the construction sector of the PRC. Driven by the continued increased in price of steel, and that of welded steel pipe, the market has later recovered from 2016 onwards.

For the next five years, the market size of overall steel pipe manufacturing is expected to grow at a CAGR of 2.0%, reaching RMB259.0 billion for the welded steel pipe manufacturing, and RMB114.0 billion for the seamless steel pipe manufacturing, with a total of RMB372.0 billion.

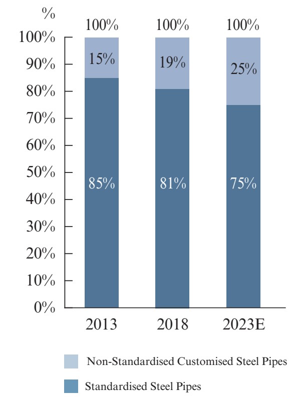
With the increasing complexity of steel pipe's application, it is more common for clients to request customised steel pipes. The percentage of non-standardised customised steel pipes has therefore increased from 15.0% in 2013 to 19.0% in 2018, and is further expected to reach 25.0% in 2023.

Market Size of Steel Pipes Manufacturing (PRC), 2013–2023E

	2013–2018	2018–2023E
Seamless Steel Pipe	–2.3%	–2.2%
Welded Steel Pipe	0.4%	4.2%
Total	–0.7%	2.0%



Market Size of Steel Pipes Manufacturing (PRC), break down by standard, 2013, 2018 & 2023



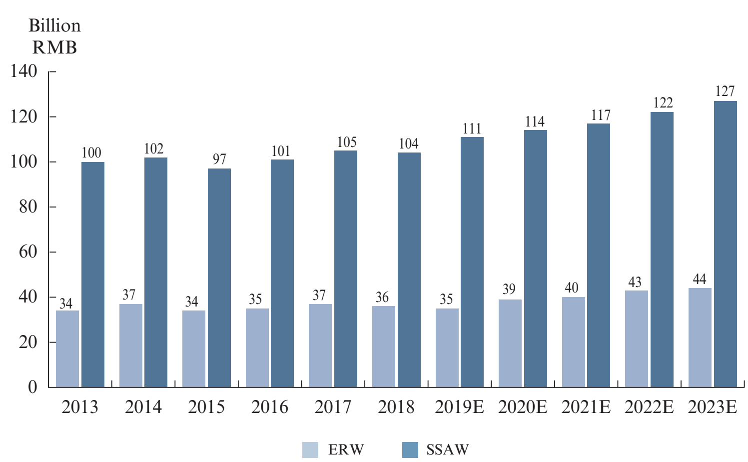
Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Market Size by Types of Welded Steel Pipes

Over the past five years, the market size of ERW steel pipes and SSAW steel pipes has increased at a CAGR of 0.8% and 0.7% respectively. With the rising application of ERW and SSAW, such as the underground urban electricity and telecom network, the market size of both types of pipes is expected to continue growing in the next five years, reaching RMB44.0 billion and RMB127.0 billion respectively.

Market Size of ERW and SSAW Steel Pipe (PRC), 2013–2023E

	2013–2018	2018–2023E
ERW Steel Pipe	0.8%	4.2%
SSAW Steel Pipe	0.7%	4.1%



Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Market Size by Application Scenario

Market Size of ERW & SSAW Steel Pipe by Application Scenario, 2013–2023E

Billion RMB	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	CAGR (2013–2018)	CAGR (2018–2023E)
Gas	43.4	45.1	41.9	45.1	45.6	44.9	47.1	49.5	49.4	53.3	56.4	0.7%	4.7%
Petroleum	18.7	18.1	18.3	18.9	19.5	19.9	20.0	22.3	23.0	23.9	25.2	1.2%	4.8%
Water	28.6	29.8	27.3	28.7	30.8	29.5	30.2	33.0	34.0	33.7	35.7	0.6%	3.9%
Construction	22.8	22.3	22.8	23.4	24.2	24.3	24.2	27.0	25.6	26.6	29.9	1.2%	4.2%
HVAC	13.0	13.6	12.1	13.0	13.9	13.9	13.8	14.7	15.5	16.2	16.6	1.3%	3.6%
Power	1.4	1.4	1.4	1.5	1.8	1.8	1.4	1.6	1.6	1.7	2.1	5.8%	3.4%
Fire	1.3	1.5	1.3	1.3	1.5	1.3	1.4	1.5	1.5	1.6	1.6	0.4%	3.9%

Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Gas, water, HVAC, and power supply are the key application scenarios for ERW & SSAW steel pipes. In 2018, urban gas transportation accounted for the largest portion, recording RMB44.9 billion. Followed by water supply, accounting for RMB29.5 billion.

For SSAW steel pipes, the application of gas, petrol, water, and construction each account for approximately 20.0% of the entire market in 2018. The market share for "HVAC" is relatively smaller, approximately 11.0%, attributable to the fact that the majority of market demand are only generated from the northern part of China. This structure of application scenario breakdown is estimated to be relatively stable through the upcoming years.

Global Market Size

The production cost of steel pipes in the PRC has been increasing over the past five years, and such trend is expected to be maintained in the near future. To mitigate the risk arising from accelerating production cost, and the potential trade conflict between the PRC and the U.S., it is expected that many steel pipe manufacturers in the PRC would set up production plants in neighbour countries. Vietnam, with close proximity to the PRC, relatively lower labour cost, and more stable trading environment, has therefore been a popular option to consider.

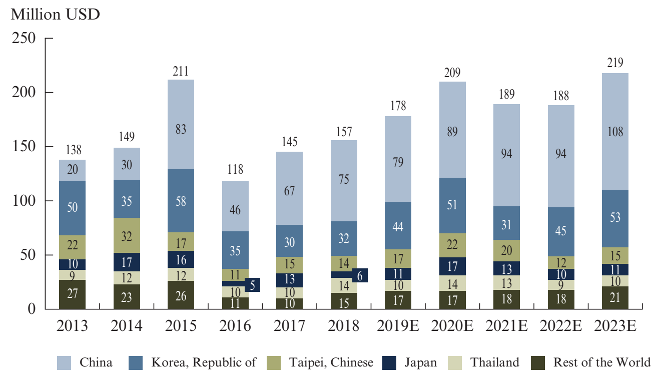
In 2017, the global welded steel pipe production industry has increased from USD52.9 billion in 2013 to USD53.8 billion in 2017, representing a CAGR of 0.4%. The market is expected to further expand at a CAGR of 4.2%, reaching USD68.9 billion in 2023. Among which, the welded steel pipe production in Vietnam has reached 2,307 thousand ton, representing a CAGR of 24.2% from 2013. It is expected that the production volume to continue increasing at a CAGR of 23.6%, reaching 7,614 thousand ton in 2023.

The trade of steel pipes and pipe nipples of Vietnam has seen significant changes. From 2013 to 2017, the import value of steel pipes and pipe nipples has been fluctuating, while the export value has been growing steadily. The export value of steel pipes of Vietnam has grown from USD327 million in 2013 to USD568 million in 2017, indicating CAGR of 14.8%. The export value of pipe nipples of Vietnam has reached USD42 million, registering CAGR of 19.9% from USD20 million in 2013.

In the future, the export value of steel pipe is estimated to be at USD1,217 million by 2023 with CAGR of 13.5%. The export value of pipe nipples of Vietnam is expected to reach USD304 million in 2023 with CAGR of 39.1%.

Import Value of Welded Steel Pipe of Vietnam, 2013–2023E

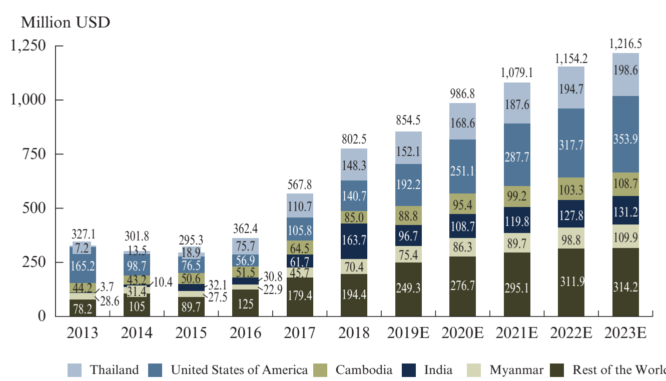
CAGR	China	Korea, Republic of	Taipei, Chinese	Japan	Thailand	Rest of the World	World
2013–2018	30.2%	–8.3%	–8.0%	–8.7%	8.9%	–10.9%	2.6%
2018–2023E	7.6%	10.4%	1.2%	11.4%	–6.8%	6.8%	6.8%



Source: Trademap, Frost & Sullivan

Export Value of Welded Steel Pipe of Vietnam, 2013–2023E

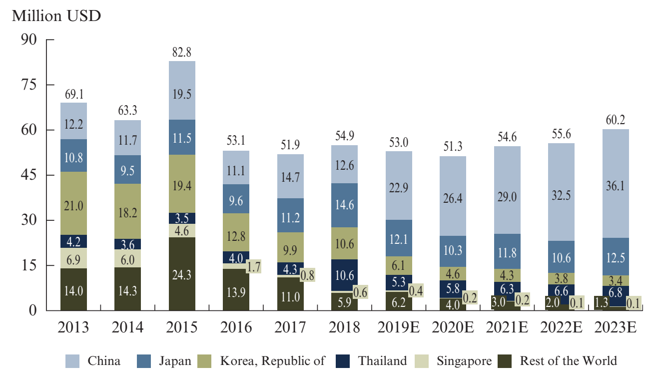
CAGR	Thailand	United States of America	Cambodia	India	Myanmar	Rest of the World	World
2013–2018	83.1%	–3.2%	14.0%	113.4%	19.7%	20.0%	19.7%
2018–2023E	6.0%	20.3%	5.0%	–4.3%	9.3%	10.1%	8.7%



Source: Trademap, Frost & Sullivan

Import Value of Pipe Nipples* in Vietnam, 2013–2023E

CAGR	Thailand	United States of America	Cambodia	India	Myanmar	Rest of the World	World
2013–2018	0.6%	6.2%	–12.8%	20.3%	–38.6%	–15.9%	–4.5%
2018–2023E	23.4%	–3.1%	–20.3%	–8.5%	–30.1%	–26.1%	1.9%

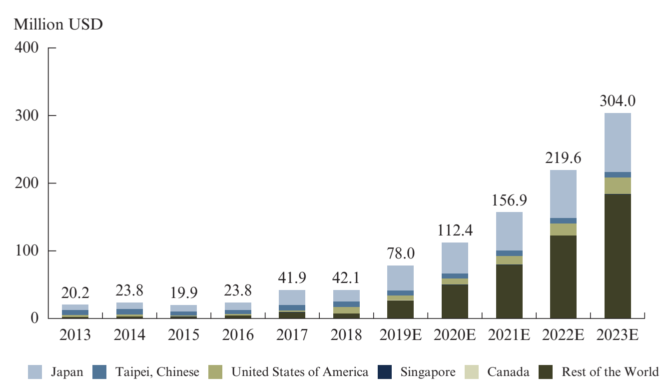


**HS Code 73079900: Referring to the Other pipe accessories made of steel not listed in the other categories.*

Source: Trademap, Frost & Sullivan

Export Value of Pipe Nipples* of Vietnam, 2013–2023E

CAGR	Japan	Taipei, Chinese	United States of America	Singapore	Canada	Rest of the World	World
2013–2018	18.2%	2.0%	23.5%	–7.8%	24.6%	35.7%	15.8%
2018–2023E	38.4%	–1.0%	22.3%	20.1%	0.0%	92.6%	48.5%



Importers	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Japan	7.5	9.6	10	11	21.9	17.3	36.5	45.6	56.6	71.3	87.7
Taipei, Chinese	7.7	8.5	5.6	6.6	7.9	8.5	8	8	8.1	8.1	8.1
USA	3.1	2.8	1.7	1.8	2.8	8.9	6.3	8.9	12.8	17.5	24.4
Singapore	0.3	0.2	0.5	0.5	0.4	0.2	0.4	0.4	0.4	0.4	0.5
Canada	0.1	0.3	0.1	0.1	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Rest of the World	1.5	2.4	2	3.8	8.7	6.9	26.6	49.2	78.7	122	183

**HS Code 73079900: Referring to the Other pipe accessories made of steel not listed in the other categories.*

Source: Trademap, Frost & Sullivan

Market Drivers

- ***Infrastructural developments***

The current One Belt and One Road initiative has aided in boosting the national economy over the years. In the coming years, the PRC government is planning to increase the amount of investment in the construction of national infrastructure in the Belt and Road to upwards of 500.0 billion US dollars, with the spending growing at a rate of more than $100.0 billion a year, becoming the most investment-rich region in the global economy. The One Belt and One Road initiative include about 900 different projects, mainly consisting of roads, railways, pipelines, ports, bridges, tunnels, power stations, etc. in more than 60 countries. As the very backbone of constructing all these projects, the steel pipe manufacture industry will play a pivotal role in supplying these projects with the necessary high-grade pipes piping system, especially for the water, oil, and gas industry, thus further propelling the steel pipes manufacturing industry in the PRC as a whole.

- ***Growth in the construction industry***

Over the past few years, there has been a rapid growth in the construction industry in the PRC. Such growth is expected to continue in the next 10 years, with an estimated market size of $2.4 trillion USD, representing around 20.0% of the global construction output. Construction, in particular, benefits the steel pipe manufacture industry as steel pipes are commonly more practical alternatives to other metals like iron. High-quality steel pipes are corrosion-resistant, heat resistant, and durable, and thereby quality steel pipes are high on demand and are very commonly used as sewage pipes, industrial/urban water pipes, gas pipes, oil pipes, fire sprinklers, construction piling, and many other piping systems. On the other hand, the demand for higher grade pipes is apparent for building structures and civil engineering projects has continued to grow, application scenarios such as high-grade steel industrial/urban water, oil and gas pipes, as well as construction piles used for building foundations, bridge foundations, structural use, supporting columns, landslide prevention, have translated into business opportunities for the steel pipe manufacturing industry in the PRC.

- ***Growing construction worldwide stimulates China's export of steel pipes***

Since 2012, the world infrastructure has been recovering from the shadow of the financial crisis, investment in construction has been growing constantly. For the developing countries nearby, especially those in south-eastern Asia such as Philippines and Myanmar, the construction in infrastructure has been continuously increasing. The growing construction sector has strongly bolstered the growth of China's export of steel pipes, pipe fittings and pipe nipples.

Market Trends

- ***Demand for greater quality steel pipes and innovation***

The demand for energy, transportation, and petrochemical steel pipes has been on the rise. The seamless steel pipes required for the construction and maintenance of energy, transportation, petrochemical and other facilities, still occupies a critical position in the market demand for steel.

In recent years, the demand for high-performance varieties used in the urban water and gas sector, such as high-performance oil well pipes, large-calibre power station boiler tubes, corrosion-resistant pipes, low-temperature resistant petrochemical pipes, and stainless steel pipes, have increased rapidly.

Additionally, in industries like automotive, home appliance, and shipbuilding, the demand for steel pipes has increased as well. The variety and quality standards have risen, and the steel pipe varieties have developed to contain higher-tech contents. Steel pipe manufacturers should therefore be expected to increase investment in innovating their products and to improve production processes.

- ***Demand for increased diversification in steel pipes and customisation***

As the steel pipe industry becomes mature, the diversification in products with different customised specifications is alleged. Since the piping system in developed parts of China has been well developed, the future of pipeline construction is expected to rely on relatively undeveloped areas with complex construction environment where the general standard can hardly follow. Therefore, the customised steel pipe products that can well adapt to the unusual geographic environment and extreme climate and tolerance of frequent natural disaster are in urgent demand. These products are required to be of higher quality and in an unusual specification. Therefore, the steel pipe manufacturers that can develop customised products that can satisfy the increasingly diversified orders are expected to take a larger market share, and become the leader within the industry.

Market Opportunities

- ***M&A opportunities and industry consolidation***

In view of tough market conditions, due to rising raw material cost, sizeable steel pipe manufacturers in the PRC may seek to merge or acquire with their industry peers in an attempt to enhance the production capacity and capability. The current drivers of merger and acquisition in the sector are often more about survival than growth strategies unlike traditional drivers of a merger or acquisition. Synergies, cost savings and protecting margins, are the major motivations for seeking peers to consolidate with, thus creating potential opportunities in the future.

- ***Opportunities to collaborate and upgrade***

The PRC has strong intent to upgrade the technology, consumption, and products in the metallurgical industry. Foreign companies can leverage their management experience and technology to offer technology consulting and R&D services to China. Particularly, collaborative R&D in high-end steel pipes and other products, commonly used by urban water & gas, high-speed rail, automotive, nuclear, and etc. As the manufacturing industry shifts towards the higher end of the value chain, it's necessary to refit and upgrade the traditional manufacture equipment segment, and encourage outbound growth in order to produce high-grade steel pipes efficiently, which are increasing in demand, and to enhance the industry's competitiveness.

Market Challenges

- ***Rising raw material prices***

Since governmental efforts to cut excess capacity in 2016, the price of raw materials such as iron ore and steel has recovered and has continued to rise, further increasing the cost of manufacturing steel pipes, causing corporate profits to continue to fall sharply. The prices of domestic raw materials such as iron ore, coking coal, scrap steel, tube billet, and strip steel are also rising substantially. These high steel prices are fuelled by the domestic development boom, as well as global demand, challenging manufacturers to more effectively control their production cost.

- ***Long production cycles***

The long production cycles may cause an imbalance in market supply and demand. For when the market demand changes, manufacturers may not be able to react quickly enough causing shortages and chaos in terms of inventory management. Such asymmetric information on the market can cripple a manufacturing company's ability to improve or even take advantage of future business opportunities. Identifying risks associated with change, being well prepared to deal with the uncertainties inherent in change, and having the facility to integrate specific changes within a longer-term strategic plan are paramount to the success of manufacturers in this industry.

Entry Barriers

- ***Technological know-how and expertise***

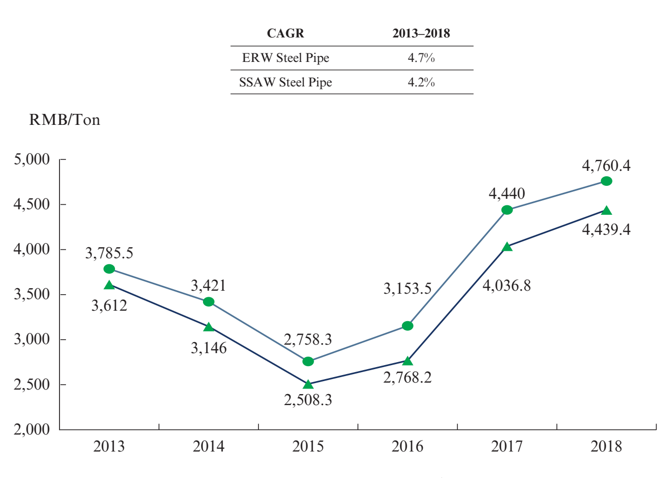
New entrants may not have the immediate experience or the technological know-how to be competitive in the manufacture of pipelines. Having the expertise and the technological know-how is essential in assuring the quality and effectiveness of the manufacture of pipelines. The expertise are experiences accumulated over a long period of time, that ensures greater quality, fewer defects, and economies of scale in production.

- ***Long-term relationships, partnerships, and market reputation***

Incumbents of the pipeline manufacturing market have established a stable stream of business relationships with customers including suppliers, distributors, and public utilities department and companies. The well-established networks allow incumbents in the pipeline manufacturing market to secure future projects and maintain competitiveness in the market. Manufacturers highly value their relationships and partnerships, due to the substantial costs associated with losing a customer or even switching suppliers. Therefore, it will be challenging for new entrants to build up such an extensive network or market reputation within a short amount of time.

Price Trend

Price Trend of ERW and SSAW Steel Pipes (PRC), 2013–2018



Source: Mysteel, Frost & Sullivan

Cost Analysis

- ***Steel Coil and Zing Ingot***

The price of steel coil and zinc ingot has fluctuated between 2013 and 2018. A price drop was seen in 2015 for steel coil, reason attributable to the over-capacity in steel production. On the other hand, due to the demand surplus, a price surge was seen in 2017 for zinc ingot. For the next five years, it is expected that both material will increase at a CAGR of 3.0% and 5.1% respectively.

Raw Materials	Geographical Scope	Unit	2013	2014	2015	2016	2017	2018	CAGR (2013–2018)	CAGR (2018–2022)
Steel Coil	PRC	RMB/Ton	3,835.5	3,408.0	2,407.1	2,883.6	3,959.7	4,259.4	2.1%	3.0%
Steel Coil	Northern China*	RMB/Ton	3,690.3	3,222.2	2,283.0	2,693.3	3,823.9	4,149.8	2.4%	2.8%
Zine Ingot	PRC	RMB/Ton	15.070.0	15,925.7	15,238.7	16,661.2	23,986.8	23,474.3	9.3%	5.1%

* *Includes Tangshan, Laiwu, Tianjin, and Handan*

Source: Wind, Frost & Sullivan

- ***Labour***

The average monthly salary of employees in the manufacturing industry has witnessed a steady growth from RMB3,201.9 in 2013 to RMB4,149.7 in 2017, representing a CAGR of 6.7%. The growth was primarily attributable to inflation, and the higher demand for workers in manufacturing industry. The growth trend is expected to continue in the next five years, at a similar CAGR of 6.0%, reaching RMB5,579.4 in 2022.

Source: National Bureau of Statistics of the PRC, Frost & Sullivan

Competitive Landscape

The steel pipe manufacturing industry in the PRC is fragmented. It is estimated that there are more than 1,000 market participants principally engaged in the business as at 2018, with top five players recording an aggregate market share of 40.0%. The fragmented market is attributable to the heavy weight of steel pipes, resulting in high transportation cost, and relatively localised strategy of manufacturers.

The steel pipe manufacturers can be divided into (i) large scale market participants who have the capacity to produce millions of tons of steel pipes each year, and have maintained close relationships with the state-owned petroleum enterprises for large scale supplying; and (ii) smaller scaled players with smaller production capacity, who focus their attention to serve niche markets with high level of customisation capabilities.

In 2018, the Group has recorded RMB773.9 million in steel pipe manufacturing, representing a market share of 0.2% in the PRC steel pipe manufacturing market.

OVERVIEW OF STANDARD PREFABRICATED PIPE NIPPLE INDUSTRY IN THE PRC

Definition

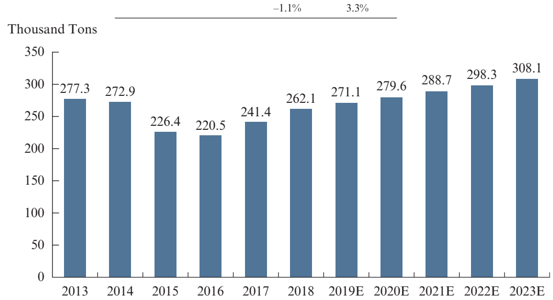
Pipe nipple are shorts pieces of pipes with male threads on each end that can be connected with other fittings. They are widely applied in suction service and low-pressure discharge for liquid transportation.

Standard prefabricated pipe nipple refers that manufacturers precisely process different materials of form prefabricated products, including but not limited to ERW steel pipes, brass pipes, and stainless steel pipes, that are strictly conformed to continental standards, such as American and European standards. The prefabricated products are sold in batches to various countries, and the installers in the field of water supply, drainage, fire protection, gas, oil and electricity, select the corresponding specifications for direct installation and use.

The export value of tubes or pipe fittings in the PRC has fluctuated for the past five years, and recorded a overall CAGR of –1.1% from 2013 to 2018. Driven by the increasing demand from overseas markets, especially that of the developing countries, and taken into account of the Sino-US trade tension, the export value of tubes or pipe fittings is expected to rise steadily, from 262.1 thousand tons in 2018 to 308.1 thousand tons in 2023, representing a CAGR of 3.3%.

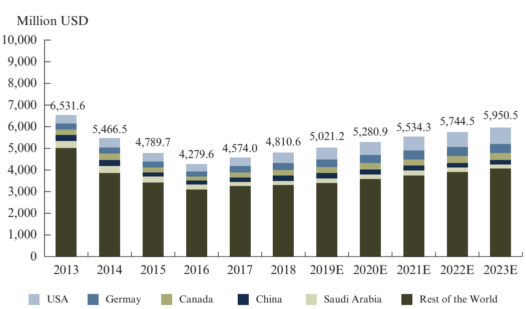
Export Value of Pipe Nipples* (PRC), 2013–2023E

CAGR	2013–2018	2018–2022E
	–1.1%	3.3%



Import Value of Pipe Nipples*, by countries, 2018

CAGR	USA	Germany	Canada	China	Saudi Arabia	Rest of the World	World
2013–2018	4.3%	5.0%	–1.6%	–1.2%	–11.2%	–8.0%	–5.9%
2018–2023E	8.4%	6.0%	4.1%	–3.7%	1.5%	4.2%	4.3%



Importers	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
USA	402	442.4	415.4	340.1	411.6	495.2	534.8	588.3	641.3	692.6	741
Germany	257.3	266.3	261.8	251	279	328.2	361	389.9	409.4	425.8	438.5
Canada	276.8	305.8	223.1	188.7	242.9	255.8	271.1	279.2	290.4	302.9	313.2
China	255.7	260.5	200	188.8	280.5	240.8	255.2	242.4	223.1	209.7	199.2
Saudi Arabia	343.2	342	266.5	212.4	185.4	189.6	199.1	211.1	221.6	215.0	204.2
Rest of the World	4,996.6	3,849.5	3,422.9	3,098.6	3,246.6	3,301	3,400	3,570	3,748.5	3,898.5	4,054.4

**HS Code 73079900: Referring to the Other pipe accessories made of steel not listed in the other categories.*

Source: Trademap, Frost & Sullivan

Pipe Nipples Industry in the PRC

The pipe nipple industry in the PRC is estimated to reach RMB100 million in 2018. However, the pipe nipple market was fragmented with no uniform product standards for decades. Different manufacturers provide pipe nipples of their own standard that may not fit in others' piping products, and impede the market from further development. Recently, China National Hardware Association has issued the document "Standard for steel pipe nipples", to unify the manufacturing standard for piping fitting products and effectively elevate the threshold for market entrants. The tightened manufacturing standard could facilitate the development of market participants who have been continually honing manufacturing techniques and investing on research and development activities as their superior manufacturing management capability would provide a guarantee of their piping products for clients.

Market Drivers

- ***Development of domestic infrastructure***

Over the past decades, China has been developing and facilitating urbanisation progress at a significant speed, which stimulated the development of industries related infrastructure construction including piping industry. The enormous domestic demand resulted in prosperous piping products market with a wide range of types and highly competitive price. The expansive piping market effectively supplies standard prefabricated pipe nipple services that focus on fine finishing of primary piping products.

- ***Regulation certification***

Currently the standard prefabricated pipe nipple industry is mainly export-oriented and the majority of clients locate at developed countries such as US, Canada, and Australia, where detailed and rigorous standard specification for piping products has been formulated. High-end products also require third-party certification for special use. Meanwhile, the China National Hardware Association has issued the industry standard of standard prefabricated pipe nipple products. Compliance to the particular requirement and certification contribute to huge demand for standard prefabricated pipe nipple, driving the development of standard prefabricated pipe nipple industry in the PRC.

- ***Overseas demand***

In the overseas markets, constrained by the high operating costs such as labour and raw material, there are minimal manufacturers providing standard prefabricated pipe nipple services that are comparable to that of PRC in terms of price, quality, and flexibility of services. The mismatch between supply and demand for standard prefabricated pipe nipple, and the growing demand from developing countries, translates into drivers that propel the PRC standard prefabricated pipe nipple industry forward.

Market Opportunities

- ***Formulation of industry standards in the PRC***

The steel pipe nipple market in China has been fragmented with no uniform product standards for decades, resulting in chaotic competition among market participants. Different manufacturers provide piping nipples of their own standard that may not fit in others' piping products, and impede the market from further development. Recently, China National Hardware Association has issued the document "Standard for steel pipe nipples" to unify the manufacturing standard for piping fitting products and effectively elevate the threshold for market entrants. The tightened manufacturing standard could facilitate the development of market participants who have been continually honing manufacturing techniques and investing on R&D activities as their superior manufacturing management capability would provide a guarantee of their piping products for clients.

Market Trends

- ***Increasing raw materials cost***

PRC standard prefabricated pipe nipple providers, benefited from the low cost of raw materials such as iron ores, typically obtain market shares and retain clients with a competitively low price compared to overseas manufacturers. However, the cost of raw materials has seen to continue rising due to the increased transportation cost, forex cost and short-term imbalance between supply and demand, posing challenges to providers of standard prefabricated pipe nipple.

- ***Rising industry standard***

Standard prefabricated pipe nipple products used to serve as boutique products for the clients. Under the guideline of supply-side reform by the PRC government, the entire standard prefabricated pipe nipple industry is raising its industry standard to transform from the low-end market to high-end markets, as seen from (i) raw material — transforming from the use of low end steels to stainless steel, and the employment of a wider variety of materials such as copper and plastic; and (ii) specification — enhancement in specifications of pipe nipples, such as the level of anti-corrosiveness and pressure resistance. To cope with intensifying competition among the industry, the rising industry standard is expected to motivate industry participants to further upgrade their products and enhance their competitiveness among the global industry participants.

Entry Barriers

- ***Market know-how***

The requirement of standard prefabricated pipe nipple, and the regulations of overseas markets have become increasingly complicated nowadays. Therefore, the ability to design and manufacture highly customisable products can effectively differentiate one manufacturer over the others. Not only is it crucial to possess a strong research and development department to develop cutting edge prefabricated technology, it is also important for the company to have in-depth market know-how and business network to source the necessary material for each kind of customised products.

- ***Network with clients***

The overseas markets is a mature dealer market and current industry participants can establish a strong dealer network through years of business cooperation and familiarity with the local market and clients' needs. The possibility of clients working with new manufacturers is also relatively lower, because of the sophisticated nature of each prefabricated pipes and systems. New entrants are therefore expected to encounter major difficulties in accessing client resources in the initial stage of operation.

- ***Intensive competition environment***

Standard prefabricated pipe nipple industry is a relatively competitive industry, and the incumbents have often established economies of scale so as to maximise production efficiency. The intensive competition environment effectively raises industry threshold for new entrants who have to possess abundant capital to invest in properties, equipment and consecutive upgrading of the manufacturing process.

Competitive Landscape

Industry concentration of standard prefabricated pipe nipple export market is relatively low, with the top five leading market players registering approximately 15.2% of the entire market in 2018.

Among those five leading market players, our Group has occupied the biggest market share, with 7.1%, and 18.7 thousand tons of standard prefabricated pipe nipple products are exported in 2018.

Top Five Players in the standard prefabricated pipe nipple industry, by tons in export*, 2018

Rank	Market participant	Thousand tons exported in 2018	Market share
1	**The Group**	**18.7**	**7.1%**
2	Company A	7.9	3.0%
3	Company B	5.4	2.1%
4	Company C	4.4	1.7%
5	Company D	3.5	1.3%

**HS Code 73079900: Referring to the Other pipe accessories made of steel not listed in the other categories.*

Source: General Administration of Customs of the PRC, Frost & Sullivan

Note:

Company A refers to a PRC company principally engaged in the production of pipe nipples and fittings, as well as other oil and gas piping products.

Company B refers to a PRC company that specialises in producing oil and gas drilling and production equipment and valves.

Company C refers to a PRC company principally engaged in the production of steel pipe.

Company D refers to a PRC company principally engaged in the production of malleable iron, ductile iron, and bronze pipe fittings.

Source: Frost & Sullivan

OVERVIEW OF CUSTOMISED PIPING SYSTEM PREFABRICATION SOLUTION INDUSTRY IN THE PRC

Definition

Customised piping system prefabrication solution refers to the services that manufacturers provides to meet customised piping demands of clients. The service scope usually involves (i) understanding the requirement; (ii) designing solution; (iii) manufacturing with customised treatment; (iv) on-site installation; and (v) after-sales maintenance services.

With the increasingly complicated application scenarios of pipes, and the sophisticated piping needs from clients, it is expected that the demand for customised piping system prefabrication solution will continued to surge in the near future.

Advantages of Customised Piping System Prefabrication

- ***High delivery performances***

The customised piping system prefabrication can be manufactured off-site by industrialised construction methods in a controlled environment. The system can be constructed synchronously with civil works to reduce the total construction time by one third as a whole.

- ***Lower construction cost***

The customised piping system prefabrication can enhance the efficiency of key manufacturing process through mechanisation, automation and advanced information management, and thus contribute to reducing labour costs by approximately 50.0% and management expense by approximately 30.0%.

- ***Better quality assurance***

The customised piping system prefabrication is pre-designed, and the whole production process is monitored and inspected under the controlled environment, and thus the quality can be better guaranteed.

- ***Environmental protection***

The production process reduces the generation of construction waste, the discharge of construction sewage, the interference of building noise, the influence of harmful gases and dust on the surrounding environment.

OVERVIEW OF THE PRC LAWS AND REGULATIONS

INTRODUCTION

This section sets forth a summary of the most significant laws and regulations that affect our business in the PRC. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

REGULATIONS RELATING TO FOREIGN INVESTMENT

Investment activities in the PRC by foreign investors are principally governed by the Provisions on Guiding the Orientation of Foreign Investment, which was promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002, the Catalogue of Encouraged Industries for Foreign Investment (2019 Edition) (the "**Catalogue**"), which was issued by the Ministry of Commerce ("**MOFCOM**") and the National Development and Reform Commission ("**NDRC**") on 30 June 2019 and came into effect on 30 July 2019, and The Special Administrative Measures (Negative List) for Foreign Investment Access (2019 Edition) (the "**Negative List**"), which came into effect on 30 July 2019. Industries not listed in the Negative List are generally open to foreign investment unless specifically restricted by other PRC regulations. According to the Catalogue and the Negative List, metal products industry is generally open to foreign investment.

REGULATIONS RELATING TO WHOLLY FOREIGN-OWNED ENTERPRISE

On 15 February 1993, the Standing Committee of the National People's Congress issued *the PRC Company Law* (the "**Company Law**") and recently amended it on 26 October 2018. The companies are classified into limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

On 12 April 1986, the Standing Committee of the National People's Congress issued *the Wholly Foreign-owned Enterprise Law of the PRC* (the "**Wholly Foreign-owned Enterprise Law**") and then amended it in October 2000 and September 2016 respectively. On 28 October 1990, the State Council issued *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law,* which was recently amended on 19 February 2014. The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are mainly regulated by the former two regulations.

On 3 September 2016, the Standing Committee of the National People's Congress published *the Decision on Revising Four Laws including the Wholly Foreign-owned Enterprise Law of the People's Republic of China* in which the approval procedure for foreign investments has been amended so that foreign investments in business sectors not subject to special entry management measures will only be required to complete a filing instead of the existing requirements to apply for approval. The special entry management measures shall be issued or approved to be issued by the State Council. On 8 October 2016, the NDRC and MOFCOM issued a notice (the "**Notice 22**"), pursuant to which the special entry management measures shall be implemented with reference to the relevant regulations as stipulated in the Catalogue in relation to the restricted foreign investment industries, prohibited foreign investment industries and encouraged foreign investment industries which have special requests on equities or senior managers. *The Interim Measures for Filing Administration of the Establishment and Modifications of Foreign Invested Enterprises* was issued by MOFCOM on 8

October 2016 and recently amended on 29 June 2018 and became effective on 30 June 2018, under which the establishment and changes of foreign invested enterprises not subject to the approval under the special entry management measures shall be filed with the relevant commerce authorities.

The National People's Congress has promulgated *the Foreign Investment Law of the PRC* (the "**Foreign Investment Law**") on 15 March 2019, which would become effective and replace the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises, the Law of the People's Republic of China on China-Foreign Contractual Joint Ventures and the Law of the People's Republic of China on China-Foreign Equity Joint Ventures from 1 January 2020 onwards. According to the Foreign Investment Law, the foreign investments involving no special entry management measures in specific sectors as listed in the negative list issued (or approved for issuing) by the State Council would be granted a treatment no less favourable than that to domestic investments. In addition, the Foreign Investment Law provides several protective rules for foreign investors and their investments in the PRC, including, among others, that local governments shall abide by their commitments to the foreign investors; foreign invested enterprises are allowed to conduct financing through public offering of shares, corporate bonds and other securities; and the State shall protect the intellectual property rights of foreign investors and foreign-funded enterprises. Where any foreign investor or foreign invested enterprise fails to report its investment information in accordance with the Foreign Investment Law, it could be ordered to rectify within a prescribed time limit. And if such rectifications are not made in time, a penalty of no more than RMB500,000 could be imposed.

REGULATIONS RELATING TO PRODUCTION SAFETY AND SPECIAL EQUIPMENT

Production Safety

In August 2014, the Standing Committee of the National People's Congress amended *the Production Safety Law of the PRC* (the "**Production Safety Law**") and it came into force on 1 December 2014. The Production Safety Law requests that business entities must strengthen work safety management, enhance work safety conditions, promote work safety standardisation and improve work safety levels. The entity which does not meet safety conditions prescribed by this law and other relevant laws, administrative regulations, and national or industry standards should not engage in production and the other business activities. To assure work safety rules being observed in production process, business entities should establish and improve work safety responsibility systems and work safety policies which specify the responsible person for each position, the scope of duties and the evaluation criteria. Business entities shall provide their employees with labour protection products and work safety training. Where the primary person in charge of a business entity fails to perform his or her duties in work safety as provided for in the Production Safety Law, he or she would be subject to legal liabilities regarding the seriousness of work safety accident.

Special Equipment

According to *the Special Equipment Safety Law of the PRC* which was issued by the Standing Committee of the National People's Congress on 29 June 2013 and came into force on 1 January 2014, special equipment refers to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, cranes, passenger cable-ways, large entertainment facilities and in-plant (in-factory) special motor vehicles that involve great danger to the personal and property safety and other special equipment applicable to the law in accordance with laws and administrative regulations. Special equipment producers shall be licensed by the relevant department in charge of the safety supervision and administration of special equipment before engaging in relevant production activities. Special equipment users shall use special equipment produced with a permit and passing inspection, and such users shall, before or within 30 days after putting special equipment to use, register the use with the department responsible for special equipment safety supervision and administration, obtain a use registration certificate. The entities using special equipment shall have special equipment safety management personnel, testing personnel and operating personnel with corresponding qualifications according to the relevant state provisions. They shall conduct routine maintenance and regular self-check of the special equipment used by them and conduct regularly check and repair the safety accessories and safety protection devices, and keep records thereof.

In addition to the regulations above, on the basis of *the Regulations on Safety Supervision over Special Equipment* issued on 11 March 2003 and amended by the State Council on 24 January 2009, special equipment users shall make a request for the periodic inspection to a special equipment inspection and testing institution as required by the safety technical codes for the periodic inspection.

REGULATIONS RELATING TO PRODUCT QUALITY AND CONSUMER PROTECTION

Product Quality

The principal legal provisions governing product liability are set out under *the Product Quality Law of the PRC* (the "**Product Quality Law**") issued by the Standing Committee of the National People's Congress on 22 February 1993 and was recently amended on 29 December 2018. The Product Quality Law requests that the producers shall have their own proper regulations for the management of product quality, rigorously implementing quality regulations, quality liabilities and relevant measures for their assessment. As prescribed in this law, producers shall be responsible for the quality of products they produce and they shall be liable for failing to meet the prescribed quality standards. Violation of the Product Quality Law may result in fines and the violator will be ordered to suspend its operations, or its business licence will be revoked and criminal liability may be incurred if the case is serious enough to constitute a crime.

Pursuant to *the Tort Liability Law of the PRC* (the "**Tort Law**") issued on 26 December 2009 by Standing Committee of the National People's Congress. The Tort Law regulates that a producer shall be responsible for the quality of the products it produces. Where any harm is caused by a defective product, the victim may claim for compensation either from the producers or sellers, the sellers holds the right to recover their losses from the producers. If the liability lies on the sellers while the compensation has been paid by the producers, the producers have the right to recover their losses from the sellers.

Consumer Protection

Under *the Law of the PRC on Protection of Consumer Rights and Interests* (the "**Consumer Law**") issued on 31 October 1993 and recently amended in 25 October 2013, "consumer" is defined as any person who purchases or uses commodities or receives services for the purpose of consumption, and all manufacturers, distributors and service providers are required to guarantee that their provided commodities or services meet the requirements on personal and property safety. According to the Consumer Law, consumers whose lawful rights and interests are infringed upon in purchasing or using commodities may claim compensation from the sellers, which shall, after paying compensation, have the right to be reimbursed by the liable manufacturers or other sellers supplying the commodities to them.

REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

As pollutant emissions are involved in the production process of our PRC operating subsidiaries, our operations should comply with the relevant environmental protection laws and regulations of the PRC as outlined below:

Environmental Protection Law

The Environmental Protection Law of the PRC (the "**Environmental Protection Law**") established the legal framework for China's environmental protection efforts. It was issued by the Standing Committee of the National People's Congress on 26 December 1989 and was recently amended on 24 April 2014.

Pursuant to the Environmental Protection Law, any organisation that discharges pollutants shall take effective measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues and etc. generated in the production, construction or other activities. Environmental impact assessment shall be carried out in the formulation of relevant development and utilisation plans and construction of projects which have an impact on environment. Pollution prevention facilities in construction projects shall be designed, constructed and put into use simultaneously with the main projects. Pollution prevention facilities shall comply with the requirements of the approved environmental impact assessment document, and shall not be arbitrarily demolished or left idle.

Environmental Assessment and Management of Construction Projects

The Environmental Impact Assessment Law of the PRC (the "**Environmental Impact Assessment Law**") was issued by the Standing Committee of the National People's Congress on 28 October 2002 and came into force on 1 September 2003, and was recently amended on 29 December 2018. Pursuant to the provisions of the Environmental Impact Assessment Law, the PRC government put forth the environmental impact evaluation system to construction projects and implemented classification management according to the degree of environmental impact of the construction project.

The State Council issued and implemented *the Regulations on Environmental Protection Management of Construction Projects* on 29 November 1998, which was recently amended on 16 July 2017 and came into force on 1 October 2017. The Ministry of Environment Protection (the predecessor of the Ministry of Ecological Environment of the PRC) issued *the Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion* on 27 December 2001, which was recently amended on 22 December 2010 and the Interim Measure for Environmental Protection Acceptance of Construction Projects on 20 November 2017. According to the foregoing regulations, upon completion of a construction project for which an environmental impact report or an environmental impact statement has been prepared, the construction unit shall carry out acceptance check of the supporting environmental facilities being constructed and prepare an acceptance report according to the standards and procedures required by the administrative department of environmental protection, and such supporting environmental protection facilities shall be put into operation simultaneously or used together with the main body of the project. If a construction unit violates the aforesaid provisions, it could be ordered to rectify within a specified time limit and charged a fine of more than RMB200,000 less than RMB1.0 million; if it fails to make rectification within the time limit, a fine of more than RMB1.0 million but less than RMB2.0 million shall be imposed on it and the construction unit could even be ordered to stop its production or operation, or to close down when material environmental pollution is caused.

Pollutant Discharge Licence and Pollutant Discharge Fees

The Ministry of Ecological Environment issued and implemented *the Administrative Measures for Pollutant Discharge Licensing (for Trial Implement)* on 10 January 2018 and recently amended on 22 August 2019 and *the Classified Management Catalogue of Discharge Permits for Stationary Pollution Sources (Version 2017)* on 28 July 2017 to regulate the application, issuance, implementation, supervision and other acts of Pollutant Discharge Licence.

Environmental protection authorities, in accordance with the application and commitment of pollutant discharging units, through the issuance of legal document in the form of Pollutant Discharge Licence, lay out the environmental management requirements, regulate and restrict the pollutant discharge behaviours of discharging units in accordance with laws and regulations, and implement the environmental administration and supervision on discharging units according to the Pollutant Discharge Licence.

LAWS AND REGULATIONS RELATING TO PROPERTY

Land Administration Law

According to *the Land Administration Law of the PRC*, which was issued by the Standing Committee of the National People's Congress on 25 June 1986 and became effective on 1 January 1987, and was recently amended on 26 August 2019 (the latest revision will be effective from 1 January 2020), the State implements the system of compensated use of state-owned land and the system of control over the usages of land. The ownership and use right of land registered according to law shall be protected by law. Any units and individuals who need to use the state-owned land for construction purpose shall apply for the use of state-owned land in accordance with the law, and obtain the state-owned land use right by way of paying land use right assignment fees and other fees and expenses according to the standards and ways prescribed by the State Council.

Property Law

The Property Law of the PRC (the "**Property Law**") was issued by the National People's Congress on 16 March 2007 and came into force on 1 October 2007.

Pursuant to the Property Law, "property right" refers to the right of the obligee to enjoy direct control and exclusive right of a particular property according to law, including ownership, usufruct and security interest. The creation, alteration, transfer and extinction of the immovable property right shall be made effective through registration, unless it is otherwise provided for by law. The property rights of the state, the collectives, the individuals and other rights holders are protected by law.

On the basis of *the Urban and Rural Planning Law of the PRC* issued on 28 October 2007 and recently amended on 23 April 2019 by the Standing Committee of the National People's Congress, the construction unit shall submit the approval, ratification, archival filing and the contract for assignment of the right to use state-owned land relating to the construction project to apply for the Permit for Construction Land Planning from the urban and rural planning authority at municipal planning authority after signing the land use right assignment contract. After obtaining such permit, the construction unit shall organise the necessary planning and design work in accordance with planning and design requirements and a planning and design proposal in respect of the building project shall be submitted to the municipal planning authority.

In addition, a construction unit shall apply for a Construction Commencement Permit from the construction administrative authority under the local people's government above the county level pursuant to the *Measures for the Administration of Construction Work Permit of Construction Projects* issued by the Ministry of Construction on 15 October 1999 and recently amended on 28 September 2018.

REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL SECURITIES

Employment

Pursuant to *the Labour Law of the PRC*, *the Labour Contract Law of the PRC* (the "**PRC Labour Contract Law**") and *the Implementation Rules of the Labour Contract Law of the PRC* (the "**PRC Labour Law**"), labour relationships between employers and employees must be executed in written form. The regulations impose stringent requirements on the employers in relation to entering into fixed-term employment contracts, hiring of temporary employees and dismissal of employees. As prescribed, employers shall guarantee that its employees have the right to rest, and they should also offer its employees the wages no lower than local standards on minimum wages. Employers must establish a system for labour safety and sanitation, strictly abide by state standards and provide relevant education to its employees. Violations of the PRC Labour Contract Law and the PRC Labour Law may result in imposition of fines and other administrative liabilities and incur criminal liabilities in the case of serious violations.

According to *the Employment Promotion Law of the PRC* which came into effect on 1 January 2008 and was recently amended on 24 April 2015, when an employer recruits employees, it shall provide workers with equal employment opportunities and fair employment conditions and shall not have any employment discrimination.

Labour Dispatch

According to *the Interim Provisions on Labour Dispatch issued by the Ministry of Human Resources and Social Security* on 24 January 2014 and becoming effective on 1 March 2014, a company can only use dispatched workers on temporary, ancillary or alternative positions, and the number of dispatched workers shall not exceed 10.0% of the total number of employees.

Social Securities

The principal laws relating to social securities include *the Social Insurance Law of the PRC*, *the Regulations on Occupational Injury Insurance*, *the Interim Measures concerning the Maternity Insurance for Enterprise Employees*, and *the Regulations concerning the Administration of Housing Fund*. Enterprises and institutions in the PRC shall provide their employees with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, occupational injury insurance and medical insurance, as well as housing fund and other welfare plans. The Social Insurance Law, which was issued on 28 October 2010 and came into force on 1 July 2011, and was amended on 29 December 2018 prescribes that an employer shall apply to the local social insurance agency for social insurance registration within 30 days from the date of its formation. And it shall, within 30 days from the date of employment, apply to the social insurance agency for social insurance registration for the employee. Any employer who violates the regulations above shall be ordered to make correction within a prescribed time limit, or the employer will be fined.

Housing Provident Fund

According to *the Regulation Concerning the Administration of Housing Provident Fund*, implemented since 3 April 1999 and amended on 24 March 2019, any newly established entity shall make deposit registration at the housing accumulation fund management centre within 30 days as at its establishment. After that the entity shall open a housing accumulation fund account for its employees in an entrusted bank. Within 30 days as at the date an employee is recruited, the entity shall make deposit registration at the housing accumulation fund management centre and seal up of the employee's housing accumulation fund account in the bank mentioned above. Any entity that fails to make deposit registration of the housing accumulation fund or fails to open a housing accumulation fund account for its employees shall be ordered to make up the procedures within a time limit. Once the entity does not make up the procedures within the time limit, it shall be given a fine. Any entity fails to make payment of housing provident fund within the time limit or has shortfall in payment of housing provident fund will be ordered to make the payment or make up the shortfall within the prescribed time limit, otherwise, the housing provident management centre is entitled to apply for compulsory enforcement with the people's court.

REGULATIONS RELATING TO INTELLECTUAL PROPERTIES

Patents

Patents are protected by *the Patent Law of the PRC* (the "**Patent Law**") promulgated on 12 March 1984 and recently amended on 27 December 2008 and its implementation rules which was amended on 9 January 2010. According to the Patent Law, inventions protected refers to inventions, utility models and designs. An invention or utility model for which a patent is to be granted shall be novel, inventive and practically applicable. The right to apply for a patent and the patent rights may be assigned. Where the right owner chooses to assign a patent or a patent right, the parties concerned shall conclude a written contract, and have the contract registered in the patent administrative department of the State Council. Once the patent has been granted to an entity or an individual, unless it is otherwise prescribed by this law, no entity or individual is entitled to exploit the patent without permission of the patentee.

Trademarks

Trademarks are protected by *the Trademark Law of PRC* which was adopted in 23 August 1982 and recently amended on 30 August 2013 and 23 April 2019 (the latest revision became effective since 1 November 2019) as well as *the Implementation Regulation of the Trademark Law of PRC* (the "**PRC Trademark Law**") adopted by the State Council in 3 August 2002, amended on 29 April 2014. The Trademark Office under the State Administration for Industry and Commerce of the People's Republic of China handles trademark registrations and grants a term of ten years to registered trademarks which may be renewed for consecutive ten-year periods upon request by the trademark owner. Trademark licence agreements must be filed with the Trademark Office for record. The PRC Trademark Law has adopted a "first-to-file" principle with respect to trademark registration. Where a trademark for which a registration has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a "sufficient degree of reputation" through such party's use.

Domain Names

Pursuant to *the Administrative Measures of Internet Domain Name* released by the Ministry of Industry and Information Technology on 24 August 2017 with effect from 1 November 2017, those who carry out such activities as service provision, operation and maintenance as well as supervision and administration of Internet domains within the territory of the PRC shall be subject to the said measures. The registration of a domain name shall follow the principle of "registration being granted to the first applicant", and if it is otherwise provided for in relevant detailed rules for the implementation of domain name registration, such rules shall prevail.

REGULATIONS RELATING TO IMPORTATION AND EXPORTATION OF GOODS

The major PRC laws and regulations governing import and export of goods are *Foreign Trade Law of the PRC* (the "**Foreign Trade Law**"), *Regulations of the PRC on the Administration of Import and Export of Goods* (the "**Regulations on Import and Export of Goods**"), *Customs Law of the PRC* and *Provisions of the Customs of the PRC on the Administration of Registration of Customs Declaration Entities*.

In light of the Foreign Trade Law issued by the Standing Committee of the National People's Congress on 12 May 1994, and recently amended on 7 November 2016, save as otherwise provided by laws and administrative regulations, foreign trade operators engaging in goods or technology import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its authorised institutions. Failing to do the same, the customs shall refuse to process the declaration and clearance of goods imported or exported submitted by such foreign trade operators. A legally registered foreign trade operator is entitled to act as other parties' agent to handle foreign trade businesses within its business scope.

Pursuant to the *Customs Law of the PRC*, which was issued on 22 January 1987 and was recently amended on 4 November 2017, all inward and outward goods shall enter or leave the territory at a place where there is a customs office, and those goods must be declared and duties on them paid by their sender or receiver or by representatives entrusted by the sender or receiver and approved by and registered with the General Administration of Customs. To undergo customs declaration formalities, the consignees or consignors for imported or exported goods and the customs declaration enterprises must legally register with the customs offices in accordance with *Provisions of the Customs of the PRC on the Administration of Registration of Customs Declaration Entities*. Engaging in customs declaration without such registration shall be prohibited.

REGULATIONS RELATING TO FOREIGN EXCHANGE AND OVERSEAS INVESTMENT

Foreign Exchange

The principal regulation governing foreign exchange in the PRC are *the Foreign Exchange Administration Rules of the PRC* issued by the State Council of the PRC on 29 January 1996 and was recently amended on 5 August 2008. Under these rules, payments of current account items, such as profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from or registration with State Administration of Foreign Exchange ("**SAFE**") by complying with certain procedural requirements. By contrast, payment of capital account items, such as direct equity investment, loans and repatriation of investment, requires the prior approval from or registration with SAFE or its local branch for conversion of Renminbi into foreign currencies and remittance of the foreign currencies outside the PRC.

In 2012, SAFE issued *the Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment* (the "**SAFE Circular 59**"), which substantially amended and simplified the foreign exchange procedure and was lately revised on 10 October 2018. Pursuant to SAFE Circular 59, the opening of various special purpose foreign exchange accounts, such as pre-establishment expenses accounts, foreign exchange capital accounts and guarantee accounts, the reinvestment of RMB proceeds derived by foreign investors in the PRC, and remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer require the approval or verification of SAFE, and multiple capital accounts for the same entity may be opened in different location accordingly. In 2013, SAFE issued *the Administrative Provisions on Foreign Exchange in Domestic Direct Investment by Foreign Investors* (recently amended on 10 October 2018), which specified that the direct investment by foreign investors in the PRC shall be regulated by way of registration with SAFE or its local branches and banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

On 13 February 2015, SAFE issued *the Notice on Further Simplifying and Improving the Administration of the Foreign Exchange Concerning Direct Investment* (the "**SAFE Circular 13**"). As prescribed, foreign exchange registration for domestic direct investment and foreign exchange registration for overseas direct investment will be directly reviewed and handled by banks in accordance with SAFE Circular 13 and the Guidelines for Direct Investment-related Foreign Exchange Business which is the appendix to the SAFE Circular 13, and SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration via the aforementioned banks.

According to *the Notice of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Investment Enterprises* (the "**SAFE Circular 19**") issued on 30 March 2015, foreign-invested enterprises could settle their foreign exchange capital on a discretionary basis according to the actual needs of their business operation. Whilst, foreign-invested enterprises are prohibited to use the foreign exchange capital settled in RMB (i) for any expenditures beyond the business scope of the FIEs or forbidden by laws and regulations; (ii) for direct or indirect securities investment; (iii) to provide entrusted loans or repay loans between enterprises; (iv) to purchase real estates not for self-use purposes (save for real estate enterprises).

On 9 June 2016, SAFE issued the Notice of the State Administration of Foreign Exchange on Reforming and Standardising the Foreign Exchange Settlement Management Policy of Capital Account (the "**SAFE Circular 16**"), which reiterates some of the rules set forth in SAFE Circular 19. And in the event of any discrepancy between SAFE Circular 19 and SAFE Circular 16, the latter circular shall prevail. SAFE Circular 16 provides that discretionary foreign exchange settlement applies to foreign exchange capital, foreign debt offering proceeds and remitted foreign listing proceeds, and the corresponding RMB capital converted from foreign exchange may be used to extend loans to related parties or repay inter-company loans (including advances by third parties). However, there remain substantial uncertainties with respect to SAFE Circular 16's interpretation and implementation in practice.

Overseas Investment

SAFE issued *the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles* (the "**SAFE Circular 37**") on 4 July 2014, which replaced the former circular commonly known as the "SAFE Circular 75". SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a "special purpose vehicle". SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

REGULATIONS RELATING TO TAXATION

Enterprise Income Tax

The Enterprise Income Tax Law of the PRC (the "**EIT Law**"), issued by the Standing Committee of the National People's Congress on 16 March 2007 and recently amended on 29 December 2018, and *the Implementation Rules of the EIT Law* (the "**Implementation Rules**"), issued by the State Council on 6 December 2007 and recently amended on 23 April 2019, are the principal regulations governing enterprise income tax in the PRC. According to the EIT Law and its Implementation Rules, a uniform income tax rate of 25.0% applies to all resident enterprises and non-resident enterprises that have set up institutions or establishments in PRC to the extent that (i) such income sources from PRC by the set-up institutions or establishments, or (ii) such income sources outside PRC but having an actual connection with the set-up institutions or establishments. Non-resident enterprises that have not set up institutions or establishments in China, or have set up institutions or establishments but the income obtained by the said enterprises has no actual connection with the set-up institutions or establishments, shall pay enterprise income tax at the rate of 10.0% in relation to their income sources from PRC. Resident enterprises refers to enterprises that are established under PRC Laws, or are established under foreign laws (other than PRC Laws) but whose "de facto management bodies" are located in China. Under the EIT Law, resident enterprises will generally be subject to enterprise income tax at the rate of 25.0% on their global income. Also, the Implementation Regulations of EIT Law defines the term "de facto management bodies" as "bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises".

According to the EIT Law, the EIT tax rate of a "High and New Technology Enterprise" is 15%. Pursuant to *the Administrative Measures for the Recognition of High and New Technology Enterprises*, effected on 1 January 2008 and amended on 29 January 2016, the certificate of a "High and New Technology Enterprise" is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on the "website for the administration of accreditation of high-tech enterprises". Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganisation or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be cancelled as at the year of change in the name or in the change of any other condition.

The State Administration of Taxation (the "**SAT**") issued *the Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Resident Enterprises* (the "**SAT Public Notice 7**") on 3 February 2015 and amended in October and December 2017. According to the SAT Public Notice 7, where a non-resident enterprise indirectly transfers equities and other assets of a Chinese resident enterprise to avoid its enterprise income tax payment obligation by making an arrangement not for any reasonable business purpose, such indirect transfer shall, in accordance with the provisions of Article 47 of the EIT Law, be redefined and recognised as a direct transfer of equities and other properties of the Chinese resident enterprise.

Value-Added Tax

Provisional Regulations on Value-added Tax of the PRC was issued by the State Council on 13 December 1993 and recently amended on 19 November 2017, according to which any entities and individuals engage in the sale of goods, supply of processing, repair and replacement services, and import of goods within the territory of the PRC are taxpayer of value-added tax (the "**VAT**") and shall pay the VAT in accordance with the foregoing regulations. VAT payable is calculated as "output VAT" minus "input VAT". The rate of VAT for sales of goods is 17.0% unless otherwise specified, the rate of VAT for sales of services and other intangible assets is 6.0%. The rate of VAT for goods exported by a taxpayer is zero, unless otherwise stipulated by the State Council.

According to provisions in *the Notice on Adjusting the Value added Tax Rates* (the "**Notice**") issued by the State Administration of Taxation, Ministry of Finance, where taxpayers make VAT taxable sales or import goods, the applicable tax rates shall be adjusted from 17.0% to 16.0% and from 11.0% to 10.0%, respectively. The Notice was issued on 4 April 2018 and became effective on 1 May 2018, and the adjusted VAT rates became effective at the same time according to the Notice.

According to the *Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs on Issuing Relevant Policies for Deepening the Reform of Value-Added Tax (*《財政部、稅務總部、海關總署關於深化增值稅改革有關政策的公告》, which were promulgated on 20 March 2019 and became effective on 1 April 2019, the Value-Added Tax rate of 16 percent related to sale and imported goods is reduced to 13.0%, and the VAT rate of 10.0% related to other categories of sale and imported goods is reduced to 9.0% from 1 April 2019. Besides, the scope of VAT deductions will be expanded. Furthermore, the tax rebate system of the period-end retained VAT for trial implementation will be adopted from 1 April 2019.

Pursuant to *the Circular on Value-Added Tax and Consumption Tax Policies on Exported Goods and Services* issued by Ministry of Finance and State Taxation Administration of the PRC on 25 May 2012, VAT shall be exempted or refunded when the manufacturing enterprise is exporting its self-produced goods, goods deemed as self-produced good, or providing foreign processing, repair and fitting services. Except for export tax rebate rates of VAT (hereinafter referred to as the "**tax**

rebate rates") explicitly determined by the Ministry of Finance and the State Taxation Administration in accordance with the decision of the State Council, the tax rebate rate for the export of goods is its applicable tax rate.

Dividend Distribution

The PRC laws and regulations regulating dividend distribution of foreign-invested enterprises mainly include *the PRC Company Law*, *the Law of the PRC on Sino-foreign Equity Joint Ventures* and *the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures*, the Wholly Foreign-owned Enterprise Law and the Detailed Implementation Rules for the Wholly Foreign-owned Enterprises Law.

Pursuant to the PRC Company Law, a company shall retain 10.0% of the profits as the company's statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company's statutory reserve funds has accumulated up to 50.0% of the registered capital of the company. If the statutory reserve funds of the company is not sufficient to cover its losses in previous years, the company shall use the profits of the current year to cover the losses before retaining statutory reserve funds. The remaining after-tax profits after the losses have been made up for and the statutory reserve funds has been retained can be distributed to its shareholders.

According to *the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures*, an enterprise shall, after payment of income tax in compliance with the PRC Enterprise Income Tax Law, retain reserve funds, staff incentive and welfare funds and enterprise development funds from profits after tax at such proportion at the discretion of the board of directors of the enterprise.

Pursuant to *the Detailed Implementation Rules for the Wholly Foreign-owned Enterprise Law*, wholly foreign-owned enterprises in China shall, after payment of income taxes on their profits pursuant to the tax laws of China, retain at least 10.0% of their after-tax profits each year as reserve funds, and the retention can only stop when the cumulative amount of the reserve funds reaches 50.0% of the registered capital. These reserve funds cannot be reallocated as cash dividends. In addition, wholly foreign-owned enterprises should retain some of their after-tax profits as staff incentive and welfare funds, the proportion of which may be determined by themselves.

Besides, pursuant to the EIT Law, dividends paid to non-resident enterprises and other passive income from China should be taxed at the standard rate of 20.0% withholding tax while its Implementation Rules reduced the tax rate from 20.0% to 10.0%.

Pursuant to *the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Tax Evasion on Income* signed by the Mainland China and the Hong Kong Special Administrative Region on 21 August 2006 and *the Notice of the State Administration of Taxation on Issues Concerning the Implementation of Dividend Clauses of Tax Treaties* issued and implemented by the SAT on 20 February 2009, the withholding tax rate for dividends paid by a Chinese resident company to a Hong Kong resident should be no more than 5.0%, with the requirement that the Hong Kong resident must be a company that has been holding at least 25.0% of the Chinese company's equity interests for 12 consecutive months before receipt of the dividends.

Pursuant to *the Administrative Measures for Non-Resident Taxpayers to Enjoy the Treatment under Tax Treaties* issued by the SAT on 27 August 2015 and implemented on 1 November 2015, and was recently amended on 15 June 2018, where a non-resident taxpayer who receives dividends from a Chinese resident enterprise satisfies the terms and conditions for the treatment under tax treaties, it may, at the time of tax declaration, or through withholding agent, enjoy the treatment of the tax treaties and be subject to the subsequent administration of the tax authority. According to a new version of the Administrative Measures for Non-Resident Taxpayer to Enjoy the Treatment under Tax Treaties promulgated by the SAT on 14 October 2019, which will be effective since 1 January 2020 and replace the aforementioned version afterwards, non-resident taxpayers are required to collect and retain relevant materials as stipulated for review while claiming for enjoyment of the treatment under tax treaties.

Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)

Under *the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (Revised in 2009)* (the "**M&A Rules**"), which was jointly issued by the MOFCOM and other PRC governmental authorities on 8 August 2006, become effective on 8 September 2006, and was recently amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise (the "**equity merger**"); or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or the foreign investor purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise (the "**asset merger**"). According to Article 11 of the 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. According to *the Provisional Administration Measures for the Registration of the Formation and Changes of Foreign Invested Enterprises* (recently amended on 30 June 2018), an acquisition of domestic company by foreign investor is no longer subject to approval if it does not engage in the special market entry management measures, nor fall in the Article 11 of the M&A Rules. A record-filing procedure shall be applied instead.

Pursuant to *the Notice on Distributing the Manual of Guidance on Administration for Foreign Investment Access (2008 edition)* promulgated by the Foreign Investment Department of MOFCOM and becoming effective on 18 December 2008, the transfer of equity interest from Chinese parties to foreign parties in existing foreign-invested enterprises does not refer to the M&A Rules, regardless of whether there is any affiliated relationship between the Chinese and foreign parties, and whether the foreign party is the original shareholder or new investor; the M&A Rules only refers to the merger and acquisition of domestic non-foreign-invested enterprises.

OVERVIEW OF VIETNAMESE LAWS AND REGULATIONS

INTRODUCTION

This section sets forth a summary of the most significant laws and regulations that affect our business in Vietnam. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

1. Laws relating to foreign investment

The principal statutes currently governing the incorporation and operation of a foreign owned enterprise in Vietnam are (i) Law No. 67/2014/QH13 on Investment ("**LOI 2014**"); and (ii) Law No. 68/2014/QH13 on Enterprises ("**LOE 2014**") coming into effect from 1 July 2015 and replacing Law No. 59/2005/QH11 on Investment and Law No. 60/2005/QH11 on Enterprises, respectively.

A foreign investor may invest under LOI 2014 and LOE 2014 by way of (i) setting up a new company or (ii) contributing capital to or buying shares in an existing company (iii) through business cooperation contract (BCC) with domestic investors. The following licensing procedures are applicable: (i) capital registration; (ii) obtaining/amending an enterprise registration certificate; and/or (iii) obtaining/amending an investment registration certificate.

During the operation term, any changes to the contents of the investment registration certificate or enterprise registration certificate of the enterprise must be registered with the licensing authorities. The amended certificate(s) will be issued accordingly.

2. Laws relating to environmental protection

The statute currently governing the environment protection is Law No. 55/2014/QH13 on Environment Protection which came into effect from 1 January 2015.

Environmental impact assessment report/environmental protection plan

An enterprise's operation may be subject to (i) an "environmental impact assessment report" or (ii) an "environmental protection plan" subject to its investment project.

The environmental impact assessment report/environmental protection plan shall be approved/certified by the authorities respectively before commencement of the investment project.

Any changes to, among others, the scale and scope of operations under the approved environmental impact assessment report or environmental protection plan shall be reported in writing to the authority or reflected in a new report/plan.

Waste Management

Enterprises shall collect, classify, manage and treat waste derived from their operations.

Hazardous Waste Management. If an enterprise regularly generates certain hazardous waste with quantities reaching regulatory thresholds, it shall (i) obtain a registration book of hazardous waste generator from the local Department of Natural Resources and Environment; and (ii) engage a licensed service provider to perform the necessary treatment of hazardous waste.

Normal solid waste. Enterprises shall collect and classify normal solid waste for treatment and recycling.

Waste water. Enterprises shall ensure the satisfaction of technical standards as treatment of waste water.

Dust, gases, noise, vibration, light. Enterprises shall monitor and ensure the satisfaction of applicable technical standards during their operations.

3. Laws relating to fire prevention

The statute currently governing the fire prevention is Law No. 27/2001/QH10 on Fire Prevention and Fighting which has come into effect since 4 October 2001 (as amended by Law No. 40/2013/QH13 coming into effect from 1 July 2014).

Designs of the fire prevention and fighting systems of certain establishments falling into the mandatory list of projects and constructions of which fire prevention and firefighting systems must be approved shall be examined and approved by the local fire prevention and fighting public security before commencement of construction or renovation.

Upon completing construction and before putting the construction works into use, the enterprise shall have such fire prevention and fighting systems examined and accepted by the authority.

The authority may carry out inspections (periodic or ad hoc) on fire prevention and firefighting systems.

Organisations considered as prone to fire and explosion are required to take out compulsory fire and explosion insurance for, among other things, their construction works and equipment.

4. Laws relating to employment

The principal statute currently governing the employment is Labour Code No. 10/2012/QH13 which has come into effect since 1 May 2013.

Labour Contract

Employment relationship is governed by the contractual agreement entered into between employer and employee. Labour contracts may take one of the following forms: (i) indefinite-term labour contract; (ii) definite-term labour contract the term of which is from 12 to 36 months; (iii) temporary labour contract for a specific project or seasonal work the term of which is less than 12 months.

A labour contract shall have mandatory contents such as the particulars of employer, particulars of employees, details of job, employment term, wage/salary, working and resting time and social insurance.

The signed labour contract may be terminated under circumstances specified under the laws. In the event of unilateral termination, the terminating party shall comply with the procedures and conditions required by laws.

Labour Safety and Hygiene

Employers and employees are subject to various requirements on labour safety and hygiene at the work place such as periodically testing machinery, equipment and materials with strict requirements on labour safety; securing personal protective facilities for employees; training classes on labour safety and hygiene; and periodic health checks.

Foreign Employees

Foreigners who work in Vietnam are required to obtain a work permit or a confirmation from the local labour department that he/she is exempted from work permits. A work permit will be issued for the same duration as the term of the labour contract but not exceeding two years.

Statutory Insurance

Employers and employees shall contribute compulsory social insurance, health insurance and unemployment insurance on a monthly basis to the social insurance fund. The contribution is calculated based on salary at the following mandatory rates.

	Social Insurance	Health Insurance	Unemployment Insurance	Total
Employer	17.5%	3.0%	1.0%	21.5%
Employee	8.0%	1.5%	1.0%	10.5%

5. Laws relating to taxation

The principal statutes currently governing taxation in Vietnam are:

(1) Law No. 14/2008/QH12 on corporate income tax which has come into effect since 1 January 2009 (as amended by Law No. 32/2013/QH13 which has come into effect since 1 January 2014 and Law No. 71/2014/QH13 which has come into effect since 1 January 2015);

(2) Law No. 13/2008/QH12 on value added tax which has come into effect since 1 January 2009 (as amended by Law No. 31/2013/QH13 which has come into effect since 1 January 2014, Law No. 71/2014/QH13 which has come into effect since 1 January 2015, and Law No. 106/2016/QH13 which has come into effect since 1 July 2016);

(3) Decree No. 139/2016/ND-CP regarding business registration tax which has come into effect since 1 January 2017; and

(4) Circular No. 103/2014/TT-BTC regarding withholding taxes which has come into effect since 1 October 2014.

Corporate income tax

Enterprises established under the laws of Vietnam are subject to corporate income tax.

The standard corporate income tax rate is 20%. However, preferential tax rates, tax exemptions or tax reductions may be available to eligible projects in certain industries (e.g. manufacturing of high quality steel, energy saving products; manufacturing of machineries, equipment to be used in agriculture, forestry, fishery, salt production; manufacturing of animal, poultry and aquatic feeds; and development of traditional crafts) or locations (i.e. poor and remote areas) that are encouraged by the government.

Value added tax

Organisations and individuals who produce and trade in taxable goods and services in Vietnam or who import taxable goods and services from overseas are liable to pay value added tax.

Zero rate applies to goods and services such as exported goods and services and international transportation services.

Reduced rate of 5.0% applies to the supply of essential goods and services such as clean water, fertiliser production, medicine and medical equipment, various agricultural products and services, teaching tools and products and social housing.

Standard rate of 10.0% applies to goods and services, except for those specifically named items which are subject to 0% or 5.0% tax rates.

Withholding tax

Withholding tax applies to certain payments to foreign parties such as interest, service fees and leases. This comprises a combination of corporate income tax and value added tax at varying rates. For example:

	Value added tax rate	**Corporate income tax rate**
General services	5.0%	5.0%
Construction, installation without supply of materials, machinery or equipment	5.0%	2.0%
Construction, installation with supply of materials, machinery or equipment	3.0%	2.0%
Leasing of machinery and equipment	5.0%	5.0%
Interest on foreign borrowings	Exempted	5.0%

Business licence tax

Business licence tax is payable by foreign owned enterprise on an annual basis. The rate depends on the registered charter capital with a maximum amount currently set at VND3 million.

6. Laws relating to foreign exchange control

The legislation regulating the foreign exchange market in Vietnam is Ordinance No. 28/2005/PL-UBTVQH11 on Foreign Exchange as amended by Ordinance No. 06/2013/UBTVQH13 and its guidance instruments ("**Foreign Exchange Regulations**"). A company incorporated under the laws of Vietnam is designated as a resident for exchange control purposes in Vietnam. This includes foreign owned enterprises.

Foreign currency payment

Foreign currency payments within the territory of Vietnam are strictly prohibited under the Foreign Exchange Regulations and are subject to the strict control of the State Bank of Vietnam. The law provides the following exceptions: (i) resident organisations may internally transfer capital in foreign currencies via bank transfer (as between an entity with legal status and a dependent accounting entity or vice versa); (ii) residents may contribute capital in foreign currencies in order to implement foreign investment projects in Vietnam; and/or (iii) residents are entitled to receive payments in foreign currencies made via bank transfers in accordance with import or export contracts.

Foreign currency conversion and remittance

A resident company incorporated under the laws of Vietnam is allowed to remit overseas foreign currency to meet its payment requirements for permitted transactions, subject to the selling bank's verification. This includes (i) payments and remittance in relation to import and export of goods and services; (ii) payments and remittance in relation to revenues from direct and indirect investment; (iii) remittance in relation to a reduction and subsequent repayment of direct investment capital; and/or (iv) payments for principal and interest under foreign loans.

Foreign currency bank account

A resident foreign owned enterprise shall open a direct investment capital account in foreign currency with an authorised bank in Vietnam for its direct investment in Vietnam for the following purposes: (i) receipt of charter capital contributions and receipt of medium and long-term foreign loan capital; (ii) disbursement outside Vietnam of principal, interest and fees on a foreign medium or long-term loan; (iii) disbursement outside Vietnam of capital, profit and other legal revenue of a foreign investor; and/or (iv) other revenue and disbursement transactions relating to direct foreign investment activities.

ESTABLISHMENT AND DEVELOPMENT OF OUR GROUP

Overview

The history of our Group can be traced back to the establishment of Jinan Mech in May 2013 by Mr. Kong, one of our Controlling Shareholders, Chairman and executive Director, along with Mr. Kong XC, a former director of Meide Group and the late father of Mr. Kong, and 135 other shareholders who were employees of Meide Group at that time. Mr. Kong has over 25 years of experience in business management and operation and has gained extensive experience in the pipe and foundry industries since 2004. For more information about Mr. Kong, please see "Directors and senior management — Executive Directors".

Jinan Mech specialised in the manufacturing of ERW steel pipes and standard prefabricated pipe nipples and Jinan Ma Steel specialised in the manufacture and sales of SSAW steel pipes and anti-corrosive steel pipes. As at 1 January 2016, Mr. Kong and Mr. Kong XC owned 28.04% and 9.42% interest in Jinan Mech respectively and they owned 10% and 10% interest in Jinan Ma Steel respectively. With a view to exercising control at the shareholders' meetings of Jinan Mech and Jinan Ma Steel, Yin Yuanxiao (陰元曉), Qi Xiaoyu (亓曉玉) and Liu Yong (劉勇), who in aggregate held as to 28.31% and 59.21% in Jinan Mech and Jinan Ma Steel as at 1 January 2016, had agreed to follow the decision of Mr. Kong in such shareholders' meetings until Jinan Mech acquired the entire interest in Jinan Ma Steel, which then became a wholly-owned subsidiary of Jinan Mech and Mr. Kong obtained over 50% shareholding in Jinan Mech (the "**Jinan Mech and Jinan Ma Steel Acquisition**"). Following the completion of the Jinan Mech and Jinan Ma Steel Acquisition, such arrangement became unnecessary and hence ceased. In November 2016, we further acquired the standard prefabricated pipe nipples business from Meide. Vietnam Piping was established on 7 January 2019 to engage in the manufacturing of standard prefabricated pipe nipples. For more information on Jinan Mech, Jinan Ma Steel, Vietnam Piping and the aforesaid acquisition of the standard prefabricated pipe nipples business of Jinan Mech and acquisition from Meide, please see "Our Corporate Development" below.

Key Milestones

The following table sets out a summary of our Group's key milestones:

Year	Event
2013	Jinan Mech, our indirect wholly-owned operating subsidiary, was established by Mr. Kong, along with Mr. Kong XC, and 135 other shareholders who were employees of Meide Group at that time
2014	Jinan Mech completed the acquisition of a parcel of land in Meiguizhen, Pingyin County, Jinan, and set up our production plant
2016	Jinan Ma Steel became a wholly-owned subsidiary of Jinan Mech
	Our Group acquired the standard prefabricated pipe nipples business from Meide

Year	Event
2017	Jinan Mech was accredited as High and New Technology Enterprise* (高新技術企業) by the Department of Science & Technology of Shandong Province for the first time
	Jinan Mech and The First Company of China Eighth Engineering Division Limited (中國建築第八工程局第一建設公司) entered into a strategic cooperation agreement of assembled piping system pursuant to which we commenced our operation of design and supply of assembled piping system
2018	Jinan Mech was accredited as Gazelle Benchmark Enterprise* (瞪羚標杆企業) by the Department of Industry and Information Technology of Shandong Province
	Jinan Ma Steel was accredited as High and New Technology Enterprise* (高新技術企業) by the Department of Science & Technology of Shandong Province
2019	Vietnam Piping, our indirect wholly-owned operating subsidiary, was established and commenced its operation for the manufacture of standard prefabricated pipe nipples.

OUR CORPORATE DEVELOPMENT

Our Company

In preparation for the Listing, our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 1 February 2019 as the Listing vehicle. Upon completion of the Reorganisation, our Company became the holding company of our Group with the business conducted through our three operating subsidiaries.

Our Operating Subsidiaries

As at the Latest Practicable Date, we had established three operating subsidiaries as set out below:

Name of subsidiary	Place and date of establishment/ incorporation	Registered capital as at the Latest Practicable Date	Major business activities	Sole shareholders as at the Latest Practicable Date
Jinan Mech	PRC, 21 May 2013	RMB167.7 million	Manufacture of ERW steel pipes and standard prefabricated pipe nipples	Tube Industry Investments
Jinan Ma Steel	PRC, 7 November 2001	RMB60.0 million	Manufacture of SSAW steel pipes and anti-corrosive steel pipes	Jinan Mech
Vietnam Piping	Vietnam, 7 January 2019	USD2.0 million	Manufacture of standard prefabricated pipe nipples	Jinan Mech

Below is a summary of our operating subsidiaries, including their initial shareholding structures and material changes in their equity capital during the Track Record Period.

Jinan Mech

Jinan Mech was established in the PRC as a joint stock company with limited liability on 21 May 2013 with an initial registered capital of RMB107.7 million. Jinan Mech is principally engaged in the manufacturing of ERW steel pipes and standard prefabricated pipe nipples. At the time of Jinan Mech's establishment, its shareholding structure was as follows:

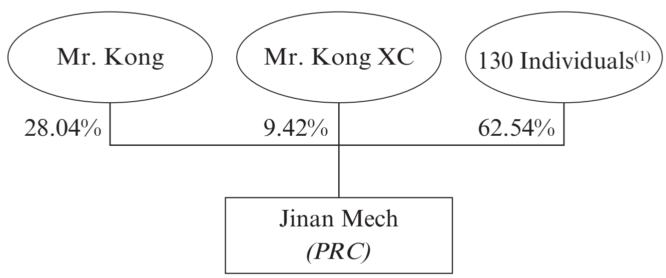
Interest holder of Jinan Mech		Approximate % of interest
Mr. Kong(1)		27.855%
Mr. Kong XC(1)		9.285%
Guo Lei (郭雷)(1)		1.857%
Xu Jianjun (徐建軍)(1)		1.857%
Yang Shufeng (楊書峰)(1)		0.139%
Zhang Ping (張平)(1)		0.139%
Tian Mingze (田明澤)(1)		0.139%
Fang Xingjun (方興軍)(1)		0.139%
Wang Ning (王寧)(1)		0.139%
Other 128 shareholders(2)		58.451%
	Total	**100%**

Notes:

(1) At the time of Jinan Mech's establishment, Jinan Mech was held by (i) Mr. Kong, (ii) Mr. Kong XC, (iii) Guo Lei (郭雷), our executive Director, (iv) Xu Jianjun (徐建軍), our executive Director, (v) Yang Shufeng (楊書峰), our executive Director, (vi) Zhang Ping (張平), a member of our senior management, (vii) Tian Mingze (田明澤), a member of our senior management, (viii) Fang Xingjun (方興軍), a member of our senior management, (ix) Wang Ning (王寧), a member of our senior management, and (x) other 128 shareholders as set out in note (2) below.

(2) Each of the other 128 shareholders held less than 10% of the interests in Jinan Mech. These other shareholders include (i) Yin Yuanxiao (陰元曉), a former director of Jinan Mech, holding as to 9.285% interest, (ii) Qi Xiaoyu (亓曉玉) and Liu Yong (劉勇), who are former directors of Jinan Mech and vice chairmen of Meide, each holding as to 9.285% interest, and (iii) Yu Ruishui (于瑞水), Ding Qingling (丁慶玲), Su Zhaoxia (蘇朝霞), Bo Xiangjun (薄祥軍), Zhao Guizhi (趙桂芝), and Li Chuanjun (李傳軍), who are directors of Meide, holding as to 1.857%, 1.857%, 0.929%, 0.929%, 0.139%, and 0.139% interest in Jinan Mech, respectively, and the others who were Independent Third Party employees of Meide Group at that time.

The following set forth the shareholding structure of Jinan Mech as at 1 January 2016:



Note:

(1) As at 1 January 2016, apart from Mr. Kong and Mr. Kong XC, the shareholders of Jinan Mech includes (i) Yin Yuanxiao (陰元曉), a former director of Jinan Mech, holding as to 9.471% interest; (ii) Liu Yong (劉勇) and Qi Xiaoyu (亓曉玉), who are former directors of Jinan Mech and vice chairmen of Meide, each holding as to 9.424% interest; (iii) Ding Qingling (丁慶玲), Yu Ruishui (于瑞水), Su Zhaoxia (蘇朝霞), Bo Xiangjun (薄祥軍), Zhao Guizhi (趙桂芝), and Li Chuanjun (李傳軍), who are directors of Meide, holding as to 1.857%, 1.857%, 0.929%, 0.929% 0.139% and 0.139% interest, respectively; (iv) Xu Jianjun (徐建軍), Guo Lei (郭雷), and Yang Shufeng (楊書峰), our executive Directors, holding as to 1.857%, 1.857% and 0.139%, respectively; (v) Liu Genqun (劉根群) and Cang Guiming (藏桂銘), who are former directors of Jinan Ma Steel, each holding as to 1.857% interest; (vi) Zhang Ping (張平), Fang Xingjun (方興軍), Tian Mingze (田明澤) and Wang Ning (王寧), who are members of our senior management, each holding as to 0.139% interest; and (vii) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

As at 1 January 2016, Mr. Kong and Mr. Kong XC owned 28.04% and 9.42% interest in Jinan Mech respectively and they owned 10% and 10% interest in Jinan Ma Steel respectively. With a view to exercising control at the shareholders' meetings of Jinan Mech and Jinan Ma Steel, Yin Yuanxiao (陰元曉), Qi Xiaoyu (亓曉玉) and Liu Yong (劉勇), who in aggregate held as to 28.31% and 59.21% in Jinan Mech and Jinan Ma Steel as at 1 January 2016, had agreed to follow the decision of Mr. Kong in such shareholders' meetings until Jinan Mech acquired the entire interest in Jinan Ma Steel, which then became a wholly-owned subsidiary of Jinan Mech and Mr. Kong acquired over 50% shareholding in Jinan Mech (the "**Jinan Mech and Jinan Ma Steel Acquisition**"). Following the completion of the Jinan Mech and Jinan Ma Steel Acquisition, such arrangement became unnecessary and hence ceased. In November 2016, under the Jinan Mech and Jinan Ma Steel Acquisition, Mr. Kong and Mr. Kong XC subscribed for registered capital of RMB58.0 million and RMB2.0 million in Jinan Mech respectively, which amounted to 34.586% and 1.193% interest in Jinan Mech, thereby increased Jinan Mech's registered capital from RMB107.7 million to RMB167.7 million; in exchange and as consideration, Mr. Kong and Mr. Kong XC transferred and swapped to Jinan Mech 96.667% and 3.333% interest in Jinan Ma Steel then held by Mr. Kong and Mr. Kong XC, respectively. The shareholding of Jinan Mech after the said acquisition was as follows:

Interest holder of Jinan Mech	**Approximate % of interest**
Mr. Kong(1)	52.832%
Mr. Kong XC(1)	7.245%
Guo Lei (郭雷)(1)	1.193%
Xu Jianjun (徐建軍)(1)	1.193%
Yang Shufeng (楊書峰)(1)	0.089%
Zhang Ping (張平)(1)	0.089%
Tian Mingze (田明澤)(1)	0.089%
Fang Xingjun (方興軍)(1)	0.089%
Wang Ning (王寧)(1)	0.119%
Other 120 shareholders(2)	37.062%
Total	**100%**

Note:

(1) Upon Jinan Ma Steel becoming a wholly-owned subsidiary of Jinan Mech, Jinan Mech was held by (i) Mr. Kong, (ii) Mr. Kong XC, (iii) Guo Lei (郭雷), our executive Director, (iv) Xu Jianjun (徐建軍), our executive Director, (v) Yang Shufeng (楊書峰), our executive Director, (vi) Zhang Ping (張平), a member of our senior management, (vii) Tian Mingze (田明澤), a member of our senior management, (viii) Fang Xingjun (方興軍), a member of our senior management, (ix) Wang Ning (王寧), a member of our senior management, and (x) other 120 shareholders as set out in note (2) below.

(2) From 1 January 2016 to the completion of the Jinan Mech and Jinan Ma Steel Acquisition, Mr. Kong acquired 0.371% interest from three shareholders who disposed all of their interests in Jinan Mech at a cash consideration of approximately RMB400,000 in aggregate, determined with reference to the then registered capital of Jinan Mech. Each of the remaining 120 shareholders held less than 10% of the interest in Jinan Mech. These other shareholders were (i) Yin Yuanxiao (陰元曉), a former director of Jinan Ma Steel and Jinan Mech, holding as to 6.082% interest, (ii) Qi Xiaoyu (亓曉玉) and Liu Yong (劉勇), who are former directors of Jinan Mech and Jinan Ma Steel, and vice chairmen of Meide, each holding as to 6.052% interest, and (iii) Yu Ruishui (于瑞水), Ding Qingling (丁慶玲), Su Zhaoxia (蘇朝霞), Bo Xiangjun (薄祥軍), Zhao Guizhi (趙桂芝), and Li Chuanjun (李傳軍), who are directors of Meide, holding as to 1.193%, 1.193%, 0.596%, 0.596%, 0.089% and 0.089% interest in Jinan Mech, respectively, and (iv) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

For the equity transfers in Jinan Mech in preparation of the Reorganisation, please see "Preparation of the Reorganisation" below.

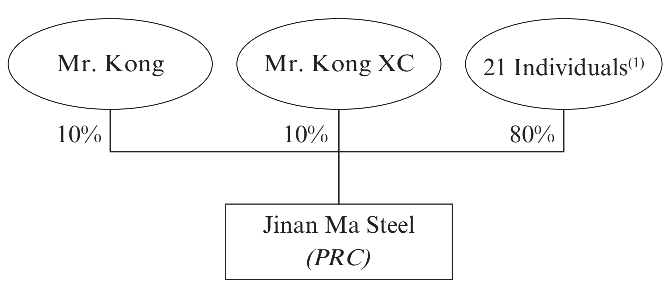
Jinan Ma Steel

Jinan Ma Steel was established in the PRC as a limited liability company on 7 November 2001 with an initial registered capital of RMB10.0 million. Jinan Ma Steel is principally engaged in the manufacturing of SSAW steel pipes and anti-corrosive steel pipes. At the time of Jinan Ma Steel's establishment, its shareholding structure was as follows:

Interest holder of Jinan Ma Steel	**Approximate % of interest**
Mr. Kong XC	6.159%
Yin Yuanxiao (陰元曉)	3.103%
Liu Yong (劉勇)	3.103%
Gong Shuhong (鞏樹宏)	1.882%
Xin Yanxiang (辛延祥)	1.882%
Wang Ruichang (王瑞昌)	1.882%
Chen Shike (陳士科)	1.882%
Zhu Mingquan (朱明泉)	1.882%
Qi Xiaoyu (亓曉玉)	1.882%
Lu Qingquan (路慶泉)	1.882%
Zhang Enjin (張恩金)	1.882%
Hu Shizhong (胡士忠)	1.882%
Jinan Ma Steel Corporation Labour Union* (濟南瑪鋼股份有限公司工會)	70.697%
Total	**100%**

In May 2007, pursuant to an equity transfer agreement, Mr. Kong acquired 1.882% interest from Lu Qingquan (路慶泉) at a cash consideration of approximately RMB188,200, which was determined with reference to the then registered capital of Jinan Ma Steel. In May 2008, Jinan Ma Steel's registered capital increased from RMB10.0 million to RMB30.0 million, which was contributed by the then shareholders in proportion to their existing shareholdings. In May 2010, Mr. Kong and Mr. Kong XC acquired RMB2.4 million and RMB1.2 million registered capital from Jinan Ma Steel Corporation Labour Union* (濟南瑪鋼股份有限公司工會), determined with reference to the then registered capital, which amount to 8.118% and 3.841% interest in Jinan Ma Steel, respectively. Upon completion of such acquisitions, Mr. Kong and Mr. Kong XC owned 10.0% and 10.0% interest in Jinan Ma Steel, respectively.

The following chart sets forth the shareholding structure of Jinan Ma Steel as at 1 January 2016:



Note:

(1) As at 1 January 2016, apart from Mr. Kong and Mr. Kong XC, the shareholders of Jinan Ma Steel include (i) Yin Yuanxiao (陰元曉), a former director of Jinan Ma Steel and Jinan Mech, holding as to 3.339% interest, (ii) Qi Xiaoyu (亓曉玉) and Liu Yong (劉勇), who are former directors of Jinan Mech and Jinan Ma Steel, and vice chairmen of Meide, holding as to 3.339% and 52.427% interest, respectively, (iii) Yu Ruishui (于瑞水), Ding Qingling (丁慶玲), Su Zhaoxia (蘇朝霞), and Bo Xiangjun (薄祥軍), who are directors of Meide, holding as to 2.053%, 2.053, 1.053%, and 1.053% interest, respectively, (iv) Xu Jianjun (徐建軍) and Guo Lei (郭雷), our executive Directors, holding as to 2.053% and 2.027% interest, respectively, (v) Liu Genqun (劉根群) and Cang Guiming (藏桂銘), who are former directors of Jinan Ma Steel, each holding as to 2.053% interest, and (vi) other 10 shareholders who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

In October 2016, Mr. Kong entered into several equity transfer agreements with individual shareholders (including Mr. Kong XC as to 6.667% interest), to acquire 86.666% interest of Jinan Ma Steel at a cash consideration of RMB52.0 million, which was determined with reference to the then registered capital of Jinan Ma Steel. Upon completion of the aforementioned acquisition, Mr. Kong and Mr. Kong XC owned 96.667% and 3.333% interest in Jinan Ma Steel respectively.

In November 2016, under the Jinan Mech and Jinan Ma Steel Acquisition, Mr. Kong and Mr. Kong XC subscribed for registered capital of RMB58.0 million and RMB2.0 million in Jinan Mech, respectively, and as consideration they transferred to Jinan Mech 96.667% and 3.333% interest in Jinan Ma Steel then held by Mr. Kong and Mr. Kong XC. The consideration was determined with reference to the net asset value of Jinan Ma Steel which amounted to RMB107.9 million as at 30 September 2016 by an independent valuer. As a result, Jinan Ma Steel became a wholly-owned subsidiary of Jinan Mech. As advised by our PRC Legal Adviser, the transactions above have been properly and legally completed and settled and all necessary regulatory approvals have been obtained in accordance with PRC laws and regulations.

Vietnam Piping

Vietnam Piping was established in Vietnam on 7 January 2019 with an initial registered capital of USD2.0 million. Vietnam Piping is principally engaged in the manufacturing and sales of standard prefabricated pipe nipples. Vietnam Piping is a wholly-owned subsidiary of Jinan Mech. There has been no change in the shareholding of Vietnam Piping since its establishment.

Acquisition of the standard prefabricated pipe nipples business from Meide

In November 2016, our Group entered into asset transfer agreements with Meide, pursuant to which Meide had transferred (i) manufacturing facilities, supporting electronic equipment and vehicles for the manufacture of standard prefabricated pipe nipples, (ii) raw materials, semi-finished products and finished products of standard prefabricated pipe nipples, and (iii) factory buildings with a total area of approximately 23,485.2 sq.m. (collectively, the "**Relevant Assets**") to our Group, at a cash consideration of RMB91.4 million (excluding value-added tax payable). The consideration was determined with reference to the value of the Relevant Assets as assessed by an Independent Third Party valuer as at 31 October 2016 which amounted to RMB91.4 million (excluding value-added tax payable). As advised by our PRC Legal Adviser, the asset transfer agreements are valid, legal and binding and do not contravene any PRC laws and regulations. After completion of the acquisition of the Relevant Assets, our Group commenced its standard prefabricated pipe nipple business.

The acquisition of the Relevant Assets in November 2016 constituted a major transaction should we have been a listed issuer of the Stock Exchange at the time of the acquisition. Pursuant to Rule 4.05A of the Listing Rules, we are required to disclose pre-acquisition financial information from the commencement of the Track Record Period to the date of acquisition. The pre-acquisition financial information has been disclosed in note 37 of the Accountants' Report in Appendix I to this prospectus.

Pre-IPO investment

Mr. Meining is our Pre-IPO Investor. Pursuant to the equity transfer agreement dated 5 March 2019, Tong Chuang Sheng De LP, a shareholder of Jinan Mech, transferred 2.999% of the interest in Jinan Mech to Tube Industry Investments (which is wholly-owned by Guan Dao Investments, which was then wholly-owned by Mr. Meining) at a consideration of RMB11,216,900 which was fully settled on 3 April 2019. As advised by our PRC Legal Adviser, the transactions above has been properly and legally completed and settled and all necessary regulatory approvals has been obtained in accordance with PRC laws and regulations.

Details of the Pre-IPO Investment are as follows:

Interest in Jinan Mech acquired:	2.999%
Total consideration:	RMB11.2 million with an implied post-money valuation of our Group of approximately RMB374.0 million
Basis of consideration:	As determined by the value of the net asset of Jinan Mech according to the accountant's report as at 31 December 2018 dated 30 January 2019 prepared by an independent certified public accountant
Date of agreement:	5 March 2019
Payment Date:	3 April 2019
Shareholding in our Company immediately upon completion of the Global Offering:	2.319%
Effective purchase cost per Share (approximately):	RMB1.1
Discount to the Offer Price[(1)]:	39.131%
Use of proceeds:	Not applicable as the consideration was paid to Tong Chuang Sheng De LP and our Company will not receive any of the proceeds
Lock-up:	Any Shares held by the Pre-IPO Investor will be subject to a lock-up period of six months from the Listing Date

Note:

(1) The "Discount to the Offer Price" refers to the discount of the "Effective purchase cost per Share" compared to the Offer Price of HK$2.13 being the mid-point of the indicative Offer Price range stated in this prospectus, based on 433,800,000 Shares in issue immediately upon completion of the Capitalisation Issue and the Global Offering, and without taking into account of the Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme.

Subsequent to his Pre-IPO Investment, pursuant to the share purchase agreement dated 18 April 2019, Mr. Meining transferred his entire shareholding in Guan Dao Investments to our Company in exchange for 503 Shares issued by our Company to Meining Investments (his investment holding company). For details, please see "4. Acquisition of Guan Dao Investments from Mr. Meining" below.

Mr. Meining is the son-in-law of Qi Xiaoyu (亓曉玉), one of the shareholders of Tong Chuang Sheng De BVI, a substantial shareholder of our Group, a former director of Jinan Mech and Jinan Ma Steel, and a vice chairman of Meide. Mr. Meining is an experienced business executive with over 13 years of work experience. From July 2006 to September 2017, he worked in a number of offices of a German multinational industrial control and automation company with focus on maximising productivity and competitiveness of customers in factory and process optimisation, in Germany and China, where he specialised in project management, consultancy, human resources management, vocational education and training. Subsequently, he founded, and has been serving as chief executive officer of, Meining Solutions Co. and Shandong Meining Intelligent Technology Co., Ltd., companies which provide business solutions and consultation to their customers in respect of adopting the industry 4.0 initiative, advance robotic systems and artificial intelligence technologies with a view to improving their factories and workplaces. Our Directors consider that bringing in Mr. Meining as our Pre-IPO Investor would allow us to leverage from his experience, expertise and suggestions with a view to achieving the following strategic benefits: (i) to enable us to reach out to the domestic and international business contacts which can be introduced by Mr. Meining and to potentially grow our international customer base; and (ii) to improve our production capabilities, overall human resources management and staff training process.

Save as disclosed above, Mr. Meining does not have any other relationship with our Group, our Shareholders, our Directors, our senior management, any connected persons of our Company and any of their respective associates. Our Directors believe that Mr. Meining decided to invest in our Group as he was optimistic about the business prospect and potential growth of our Group in the standard prefabricated pipe nipple industry and steel pipe industry. The Pre-IPO Investment was not financed directly or indirectly by any connected person of our Company. Mr. Meining has not been and is not involved in the management and daily operation of our Group.

There is no special right granted to the Pre-IPO Investor in connection with the Pre-IPO Investment. As Mr. Meining (through Meining Investments, his investment holding company) will hold 2.319% of the total issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme), he will not be a substantial shareholder of our Company upon Listing. In view of the above and as Mr. Meining is not a core connected person of our Company, his shareholding (held through Meining Investments) in our Company will be counted as part of the public float for the purpose of Rule 8.08 of the Listing Rules.

The Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Guidance Letters HKEx-GL29–12 and HKEx-GL43–12 (as amended and updated in July 2013 and March 2017) of the Stock Exchange.

PREPARATION OF THE REORGANISATION

In preparation of the Reorganisation and with a view to consolidate the shareholding of Jinan Mech, in November 2016, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP, and Tong Chuang Xing De LP (collectively, the "**Relevant LPs**") were each established as a limited partnership in the PRC by the then relevant shareholders of Jinan Mech. The following table sets out the shareholding of Jinan Mech at the date of establishment of the limited partnerships:

	Shareholding as at the date of establishment of the limited partnerships
Mr. Kong	51.282%
Tong Chuang Sheng De LP[(1)]	28.265%
Tong Chuang Shun De LP[(2)]	3.906%
Tong Chuang Chang De LP[(3)]	3.757%
Tong Chuang Xing De LP[(4)]	12.790%
Total	100%

Notes:

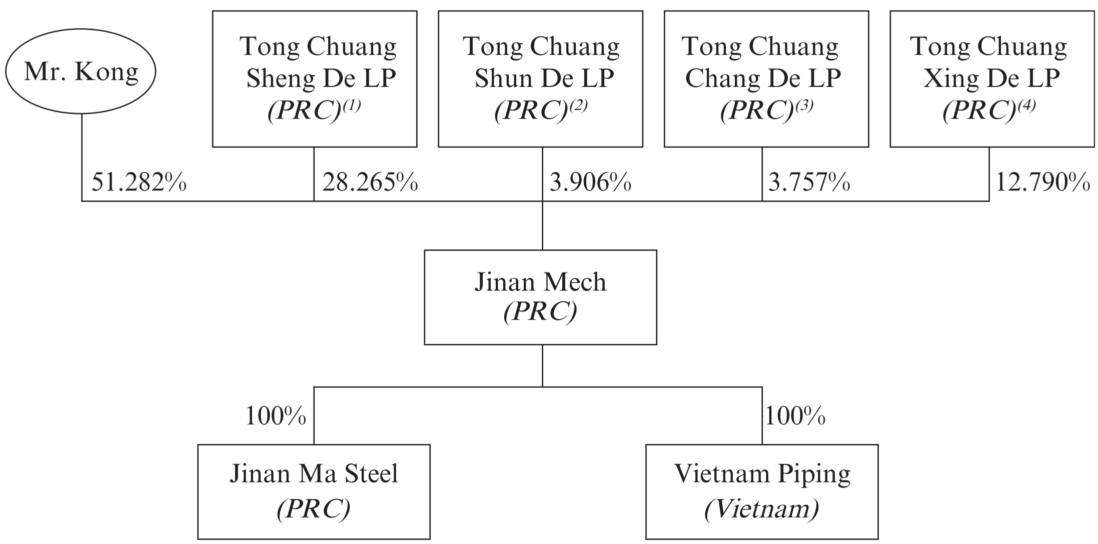
(1) At the time of its establishment, the general partner of Tong Chuang Sheng De LP was Zhang Ping (張平), a member of our senior management, holding as to 0.316% interest and the limited partners were 42 then shareholders of Jinan Mech immediately before the establishment of the limited partnership, including (i) Guo Lei (郭雷), our executive Director, holding as to 2.109% interest, (ii) Tian Mingze (田明澤), and Fang Xingjun (方興軍), who are members of our senior management, each holding as to 0.316% interest, (iii) Yin Yuanxiao (陰元曉), a former director of Jinan Mech, holding as to 16.877% interest, (iv) Mr. Kong XC holding as to 16.877% interest, (v) Liu Yong (劉勇) and Qi Xiaoyu (亓曉玉), who are the former directors of Jinan Mech and vice chairmen of Meide, each holding as to 16.877% interest, (vi) Ding Qingling (丁慶玲), Yu Ruishui (于瑞水), Su Zhaoxia (蘇朝霞), Bo Xiangjun (薄祥軍), Zhao Guizhi (趙桂芝), and Li Chuanjun (李傳軍), who are directors of Meide, holding as to 2.109%, 2.109%, 1.687%, 1.687%, 0.316%, and 0.316% interest, respectively, and (vii) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

(2) At the time of its establishment, the general partner of Tong Chuang Shun De LP was Yang Shufeng (楊書峰), our executive Director, holding as to 2.290% interest and the limited partners were 42 then shareholders of Jinan Mech immediately before the establishment of the limited partnership, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

(3) At the time of its establishment, the general partner of Tong Chuang Chang De LP was Xu Jianjun (徐建軍), our executive Director, holding as to 15.873% interest and the limited partners were 41 then shareholders of Jinan Mech immediately before the establishment of the limited partnership, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

(4) At the time of its establishment, the general partner of Tong Chuang Xing De LP was Guo Lei (郭雷), our executive Director, holding as to 64.755% interest and the limited partners were 34 then shareholders of Jinan Mech immediately before the establishment of the limited partnership, including (i) Xu Jianjun (徐建軍) and Yang Shufeng (楊書峰), who are our executive Directors, holding 18.648% and 1.864% interest, respectively, and (ii) Zhang Ping (張平), Fang Xingjun (方興軍), and Tian Mingze (田明澤), who are members of our senior management, holding as to 3.729%, 0.932% and 0.932% interest, respectively, and (iii) the others are Independent Third Party employees or ex-employees of either Meide Group or our Group.

The following chart sets forth the shareholding structure of our Group immediately before the Reorganisation:



Notes:

(1) Please see note (1) of "Preparation of the Reorganisation" above.

(2) Please see note (2) of "Preparation of the Reorganisation" above.

(3) Please see note (3) of "Preparation of the Reorganisation" above.

(4) Please see note (4) of "Preparation of the Reorganisation" above.

THE REORGANISATION

As part of our restructuring in contemplation of the Listing, we implemented the Reorganisation, which comprises the following steps:

1. Incorporation of our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 1 February 2019. Upon incorporation, the authorised capital of our Company was US$50,000 divided into 500,000,000 Shares with a par value of US$0.0001 each. Upon incorporation, our Company allotted and issued a total of 16,267 Shares ("**Mech Corresponding Shares**") at par value as follows:

Subscriber	Number of Shares	% of shareholding
Ying Stone(1)	8,630	53.052%
Tong Chuang Sheng De BVI(2)	3,508	21.565%
Tong Chuang Shun De BVI(3)	982	6.037%
Tong Chuang Chang De BVI(4)	595	3.658%
Tong Chuang Xing De BVI(5)	2,552	15.688%
Total	**16,267**	**100%**

Notes:

(1) The sole shareholder of Ying Stone is Mr. Kong.

(2) Since its establishment and up to the Latest Practicable Date, the sole director of Tong Chuang Sheng De BVI is Zhang Ping (張平), a member of our senior management. The shareholders of Tong Chuang Sheng De BVI are the limited partners after the consolidation of shareholding of those individuals with limited partnership interest in more than one Relevant LPs. The 38 shareholders include (i) Yin Yuanxiao (陰元曉), a former director of Jinan Mech, holding as to 22.805% shareholding (ii) Liu Yong (劉勇) and Qi Xiaoyu (亓曉玉), who are former directors of Jinan Mech and vice chairmen of Meide, holding as to 22.805% and 8.466% shareholding, respectively, (iii) Ding Qingling (丁慶玲), Yu Ruishuo (于瑞水), Su Zhaoxia (蘇朝霞), Li Chuanjun (李傳軍), Zhao Guizhi (趙桂芝), who are directors of Meide, holding as to 2.851%, 2.851%, 2.281%, 0.428% and 0.428% shareholding, respectively, and (iv) Zhang Ping (張平), a member of our senior management, holding as to 6.585% shareholding, and (v) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

(3) Since its establishment and up to the Latest Practicable Date, the sole director of Tong Chuang Shun De BVI is Yang Shufeng (楊書峰), our executive Director. The shareholders of Tong Chuang Shun De BVI are the limited partners after the consolidation of shareholding of those individuals with limited partnership interest in more than one Relevant LPs. The 42 shareholders include (i) Yang Shufeng (楊書峰), our executive Director, holding as to 12.525% shareholding, and (ii) Wang Ning (王寧), a member of our senior management, holding as to 7.637% shareholding, and (iii) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

(4) Since its establishment and up to the Latest Practicable Date, the sole director of Tong Chuang Chang De BVI is Tian Mingze (田明澤), a member of our senior management. The shareholders of Tong Chuang Chang De BVI are the limited partners after the consolidation

of shareholding of those individuals with limited partnership interest in more than one Relevant LPs. The 40 shareholders include (i) Tian Mingze (田明澤), a member of our senior management, holding as to 12.605% shareholding, and (ii) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group (one of whom passed away and his interest will be handled through probate process in the relevant jurisdictions).

(5) Since its establishment and up to the Latest Practicable Date, the sole director of Tong Chuang Xing De BVI is Guo Lei (郭雷), our executive Director. The shareholders of Tong Chuang Xing De BVI are the limited partners after the consolidation of shareholding of those individuals with limited partnership interest in more than one Relevant LPs. The 45 shareholders include (i) Guo Lei (郭雷), our executive Director, holding as to 36.481% shareholding, (ii) Xu Jianjun (徐建軍), our executive Director, holding as to 26.685% shareholding, (iii) Liu Minghuai (劉明懷), a member of our senior management, holding as to 5.995% shareholding, and (iv) Fang Xingjun (方興軍), a member of our senior management, holding as to 3.566% shareholding, and (v) the others, who are Independent Third Party employees or ex-employees of either Meide Group or our Group.

The Mech Corresponding Shares were issued based on the shareholding of Jinan Mech immediately prior to the Reorganisation as set out in "Preparation of the reorganisation" above and taking into account of the movement of limited partners among the Relevant LPs and the consolidation of shareholding of those individuals with limited partnership interest in more than one Relevant LPs during our Reorganisation.

2. Pre-IPO investment by Mr. Meining

Pursuant to the equity transfer agreement dated 5 March 2019, Tong Chuang Sheng De LP sold 2.999% interest in Jinan Mech to Tube Industry Investments (which is wholly-owned by Guan Dao Investments, which was then wholly-owned by Mr. Meining) at a consideration of RMB11,216,900 which was fully settled on 3 April 2019. For details, please see "Our Corporate Development — Pre-IPO investment" above.

3. Conversion of Jinan Mech into a Sino-Foreign Joint Venture Company

After the said equity transfer, Jinan Mech was changed from a limited liability company to a sino-foreign joint venture company on 11 March 2019. After this step, Jinan Mech was held as to 51.282%, 25.266%, 5.945%, 3.757%, 10.751% and 2.999% by Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP, Tong Chuang Xing De LP and Tube Industry Investments, respectively.

4. Acquisition of Guan Dao Investments from Mr. Meining

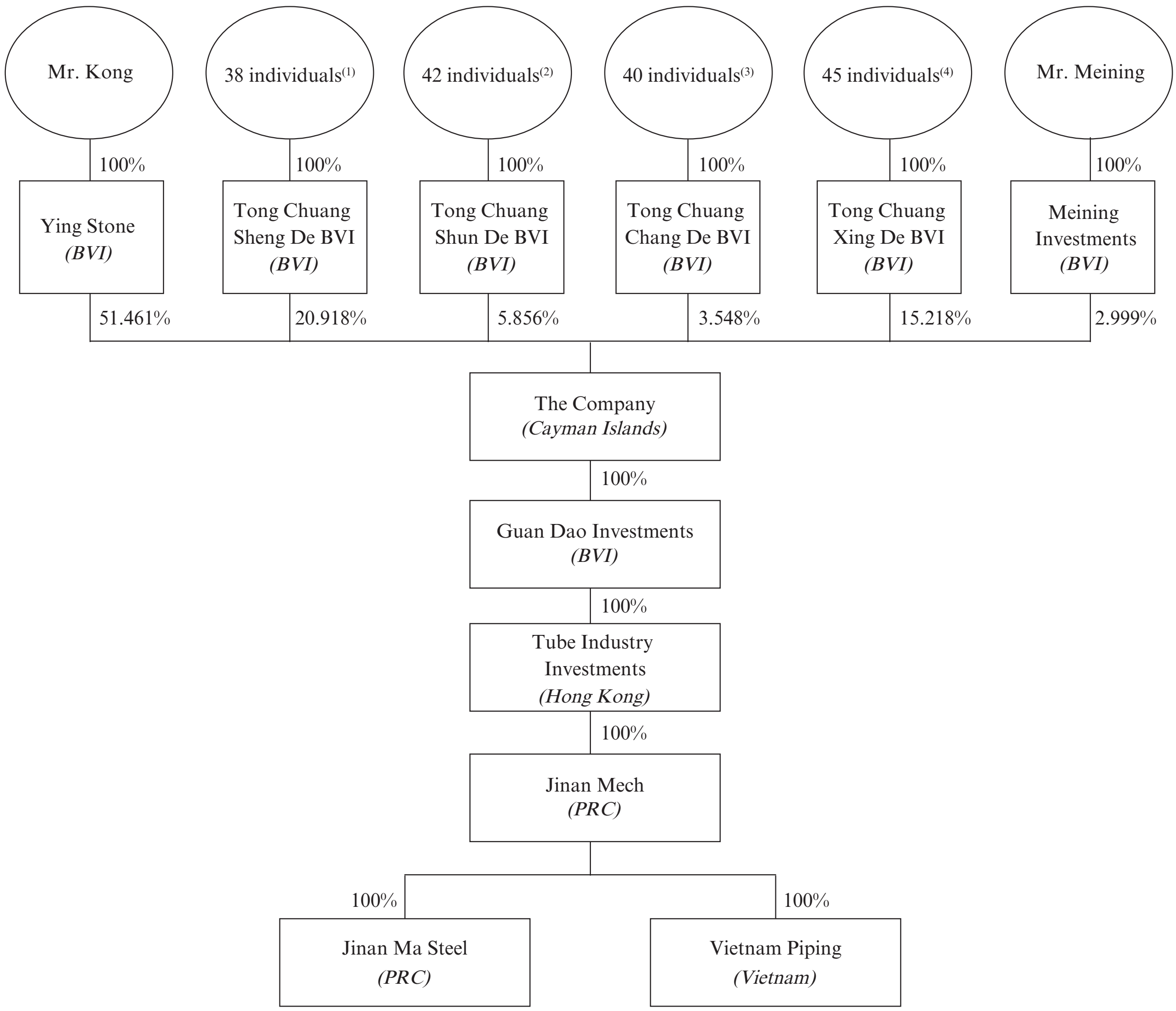
Pursuant to the share purchase agreement dated 18 April 2019, our Company acquired the entire issued share capital of Guan Dao Investments, a company wholly-owned by Mr. Meining and in exchange, our Company issued 503 Shares to Meining Investments, a company wholly-owned by Mr. Meining, representing 2.999% of our then issued share capital as consideration. After this acquisition, our Company was held as to 51.461%, 20.918%, 5.856%, 3.548%, 15.218% and 2.999% by Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Chang De BVI, Tong Chuang Xing De BVI and Meining Investments, respectively, and Guan Dao Investments became our indirect wholly-owned subsidiary.

5. Acquisition of remaining interest in Jinan Mech by Tube Industry Investments

Pursuant to the equity transfer agreement dated 6 May 2019 made among Tube Industry Investments, Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP, Tube Industry Investments acquired 51.28%, 25.26%, 5.95%, 3.76% and 10.75% interest in Jinan Mech from Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP, respectively. As consideration, Tube Industry Investments paid RMB86.0 million, RMB42.37 million, RMB9.97 million, RMB6.30 million and RMB18.03 million to Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP, respectively, by borrowing a loan (the "**Loan**") from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI (collectively, the "**Lenders**") by Tube Industry Investments (the "**Borrower**"). The aforesaid consideration was determined with reference to Jinan Mech's registered capital of RMB167.7 million. Such Loan was fully settled by the Borrower allotting and issuing 10,000 ordinary shares to Guan Dao Investments on 16 October 2019. For details, please see "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Financial Independence". After the said equity transfer, Jinan Mech became a wholly-foreign owned enterprise by Tube Industry Investments. As advised by our PRC Legal Adviser, the equity transfer agreement is valid, legal and binding and does not contravene any PRC laws and regulations.

CORPORATE STRUCTURE IMMEDIATELY AFTER THE REORGANISATION AND BEFORE COMPLETION OF THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

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



Notes:

(1) Please see note (2) of "The Reorganisation — 1. Incorporation of our Company" above.

(2) Please see note (3) of "The Reorganisation — 1. Incorporation of our Company" above.

(3) Please see note (4) of "The Reorganisation — 1. Incorporation of our Company" above.

(4) Please see note (5) of "The Reorganisation — 1. Incorporation of our Company" above.

Increase in Authorised Share Capital of our Company

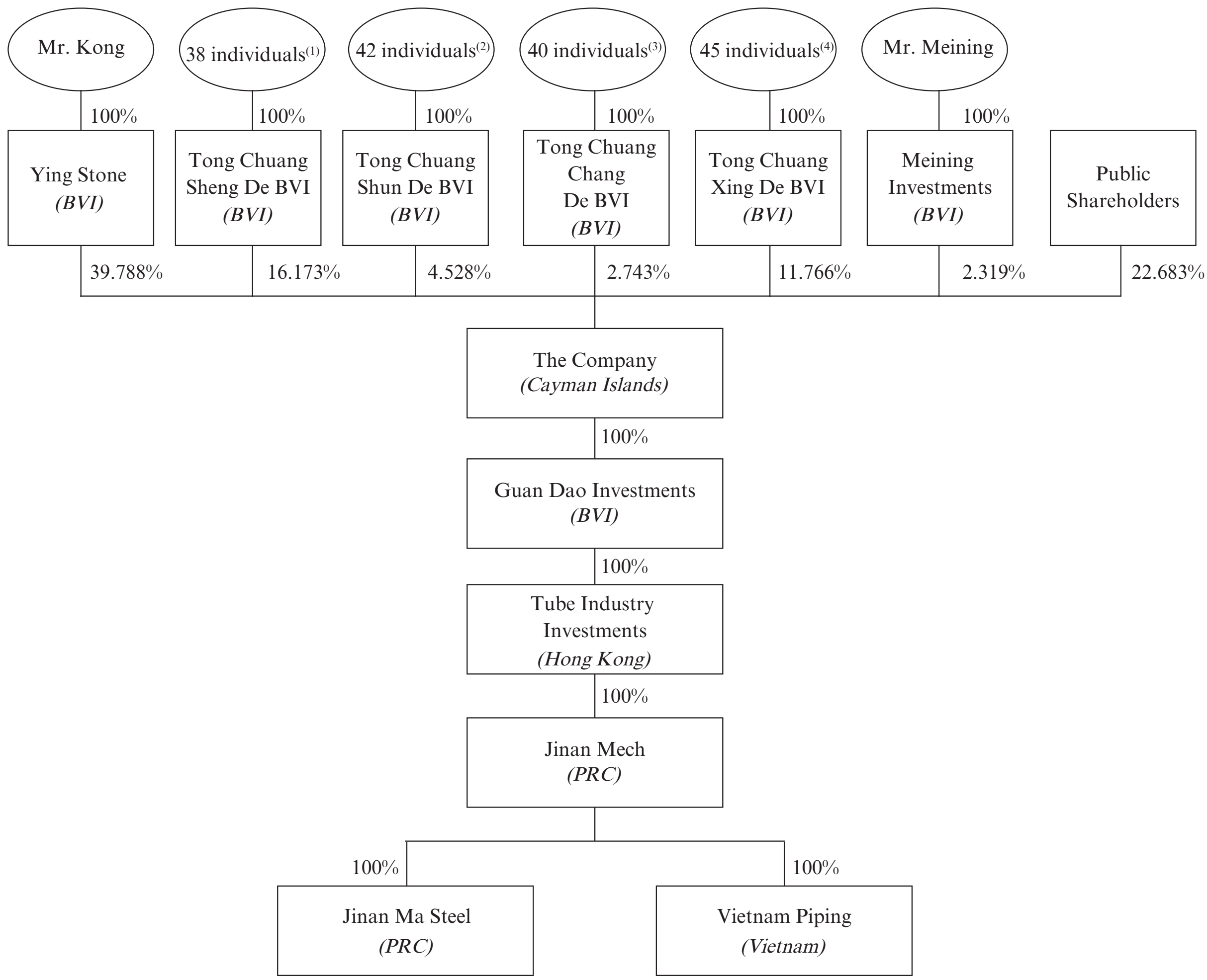
The authorised share capital of our Company will be increased from US$50,000 divided into 500,000,000 Shares of US$0.0001 each to US$500,000 divided into 5,000,000,000 Shares of US$0.0001 each by the creation of additional 4,500,000,000 Shares in the capital of the Company, conditional upon and effective from the Listing, pursuant to the written resolution of the Shareholders passed on 19 November 2019.

Capitalisation Issue and the Global Offering

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Global Offering, our Directors were authorised to allot and issue a total of 335,383,230 Shares credited as fully paid at par to our Shareholders whose names appear on the register of members of our Company, immediately prior to the Global Offering, in proportion to their then respective shareholdings by way of capitalisation of the sum of US$33,538.3 standing to the credit of the share premium account of our Company and such Shares to be allotted and issued pursuant to the Capitalisation Issue shall carry the same rights as all Shares in issue or to be issued.

CORPORATE STRUCTURE IMMEDIATELY UPON COMPLETION OF THE CAPITALISATION ISSUE AND THE GLOBAL OFFERING

The following chart sets forth the shareholding structure of our Group immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme):



Notes:

(1) Please see note (2) of "The Reorganisation — 1. Incorporation of our Company" above.

(2) Please see note (3) of "The Reorganisation — 1. Incorporation of our Company" above.

(3) Please see note (4) of "The Reorganisation — 1. Incorporation of our Company" above.

(4) Please see note (5) of "The Reorganisation — 1. Incorporation of our Company" above.

Public Float

As (i) each of Ying Stone, Tong Chuang Sheng De BVI and Tong Chuang Xing De BVI holds more than 10% shareholding interests in our Company upon Listing and hence is a substantial shareholder of our Company and (ii) Yang Shufeng (楊書峰), our executive Director, is the sole director of Tong Chuang Shun De BVI and hence controls its board, the shareholdings of Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Xing De BVI and Tong Chuang Shun De BVI will not be counted towards the public float after the Listing. The shareholdings of Meining Investments will be counted towards the public float after the Listing.

PRC REGULATORY REQUIREMENTS

According to the Regulations on Merger with and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》)(the "**M&A Rules**") jointly issued by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, China Securities Regulatory Commission (the "**CSRC**"), the SAIC and the SAFE on 8 August 2006, effective as at 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribes the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Rules, among other things, further purport to require that an offshore special vehicle, or a special purpose vehicle, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange, especially in the event that the special purpose vehicle acquires shares of or interests in the PRC companies in exchange for the shares of offshore companies.

Article 11 of the M&A Rules regulates "affiliated mergers", which refers to the circumstance 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, and an approval from MOFCOM is required.

Our PRC Legal Adviser is of the opinion that (i) at the time when Tong Chuang Sheng De LP transferred 2.999% interest in Jinan Mech to Tube Industry Investments, the ultimate owner of Tube Industry Investments, Mr. Meining, a citizen of Germany and is not a domestic natural person under the M&A Rules and thus the acquisition does not constitute and should not be deemed to be a transaction requiring approval from both MOFCOM and CSRC under the M&A Rules and the reporting requirement under Article 11 of the M&A Rules should not apply; (ii) the transfer of the 2.999% interest in Jinan Mech to Tube Industry Investments, as a result of which Jinan Mech was converted into a sino-foreign joint venture company, is subject to the M&A Rules, and Jinan Investment Promotion Bureau filed such acquisition in accordance with the relevant PRC laws and regulations and granted a receipt to Jinan Mech on 18 March 2019 the conversion of Jinan Mech into a sino-foreign joint venture company, and Jinan Administration for Industry & Commerce granted a new business licence on 11 March 2019 to Jinan Mech for its alteration registration. The revised business licence stated that the nature of Jinan Mech has then become that of a limited liability company (sino-foreign joint venture) and thus Jinan Mech has then been considered as a foreign-invested enterprise; (iii) such acquisition is not an "affiliated merger" as specified in Article

11 of the M&A Rules as Mr. Meining is not a domestic natural person, and therefore is not subject to approval from MOFCOM; and (iv) Jinan Mech has obtained all necessary approvals for such transfer from all relevant authorities and has complied with the requirements under the M&A Rules.

Meanwhile, according to the Foreign Investment Access Management Guidance Manual (外商投資准入管理指引手冊) promulgated by MOFCOM on 18 December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or the new investor, the M&A Rules shall not apply to the transfer of an interest in an incorporated foreign invested enterprise from the domestic shareholder to the foreign investor. On the basis that Jinan Mech has become a foreign invested enterprise while its 97% interest was transferred to Tube Industry Investments, the legal nature of such transfer was a transfer of equity in a foreign invested enterprise rather than a domestic enterprise as defined in the M&A Rules. Therefore, the acquisition of 97% interest in Jinan Mech did not fall under the M&A Rules and instead falls under the Provision for the Alteration of Investors' Equities in Foreign Invested Enterprises (《外商投資企業投資者股權變更的若干規定》).

SAFE REGISTRATION

Pursuant to SAFE Circular 37, promulgated by SAFE and which became effective on 4 July 2014, (i) a PRC resident must register with the local SAFE branch before he or she contributes assets or interests to an overseas special purpose vehicle (the "**Overseas SPV**") that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (ii) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including, among other things, a change of Overseas SPV's PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV's capital, share transfer or swap, and merger or division. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be restricted from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》), promulgated by SAFE and which became effective on June 1, 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interests in the domestic entity are located.

As advised by our PRC Legal Adviser, the individual owners of our Shareholders who are PRC citizens have completed their registration under the SAFE Circular 37 as at 19 April 2019.

OVERVIEW

We are principally engaged in the manufacturing and selling standard prefabricated pipe nipple products and steel pipe products. We possess the capability to supply a variety of products in terms of length, outside diameter and surface finishing which cater for the varying needs of our customers and comply with international standards. Leveraging our industry experience, we are able to design and supply a variety of assembled piping systems to our customers to satisfy various physical and functional characteristics of our customers' designated sites. We also sell unused raw materials mainly include steel coils that were procured from our suppliers. Since our establishment, we have established sales network across the world and have built up a broad and geographically diversified customer base with more than 320 customers as at 31 May 2019, most of which are located in the PRC and the rest are spread across over 35 overseas countries around the globe. According to the Frost & Sullivan Report, we ranked first in the PRC standard prefabricated pipe nipple industry in terms of export value by tons with a market share of 7.1%; and accounted for 0.2% market share in the PRC steel pipes manufacturing industry in 2018.

Our products

Our standard prefabricated pipe nipple products are manufactured by cutting, threading or further processing of ERW steel pipes manufactured by us or other pre-processed pipes such as stainless steel pipes, brass pipes or seamless steel pipes purchased as raw materials from our suppliers. As to our ERW steel pipe products, they are manufactured by feeding a steel coil through rollers that will roll it into a hollow circular shape and forcibly squeezing the two ends of the steel coil together will produce a fused joint or seam. Welding is done by the application of heat and pressure and no filler material is used. Regarding our SSAW steel pipe products, they are manufactured by twisting strips of steel coil into a spiral shape, then welding where the edges join one another to form a seam.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total revenue amounted to approximately RMB452.3 million, RMB938.2 million, RMB1,214.8 million and RMB411.4 million, respectively. Our standard prefabricated pipe nipple products represented approximately 11.7%, 31.3%, 31.2% and 25.4% of our total revenue, whereas our steel pipe products represented approximately 87.1%, 67.4%, 63.7% and 68.2% of our total revenue, respectively. The following table sets forth the breakdown of our revenue by product categories during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Standard prefabricated pipe nipples	52,896	11.7	293,555	31.3	379,267	31.2	104,579	25.4
Steel pipes products								
— ERW steel pipes	144,617	32.0	267,819	28.5	350,410	28.8	135,452	32.9
— SSAW steel pipes	189,048	41.8	249,737	26.6	292,183	24.1	74,798	18.2
— Customised steel pipes	60,399	13.3	114,816	12.3	131,589	10.8	70,467	17.1
Design and supply of assembled piping system	—	—	2,826	0.3	10,774	0.9	3,156	0.8
Others								
— Unused raw materials	5,323	1.2	9,416	1.0	50,616	4.2	22,962	5.6
Total	452,283	100.0	938,169	100.0	1,214,839	100.0	411,414	100.0

During the Track Record Period, we outperformed the industry in terms of revenue growth of ERW steel pipes, SSAW steel pipes and customised steel pipes. For the three years ended 31 December 2018, revenue of our steel pipe products had increased at a CAGR of approximately 40.2%, while the market size of welded steel pipe had only increased at a CAGR of approximately 0.5% for the same period. Please see "Industry Overview — Overview of Steel Pipes Manufacturing — Market Size by Types of Steel Pipes" for details of market growth of steel pipe manufacturing. Our Directors believe that we have been able to outperform the industry because we have been able to (i) increase sales to existing customers and develop new customers for ERW steel pipes; (ii) expand customer base for customised steel pipes; and (iii) maintain sales volume of SSAW steel pipes, which in turn stem from our sales effort and continued investment in research and development and enhanced competitiveness of our products. Please see "Financial Information — Review of historical results of operations".

Our business model

We manufacture and sell standard prefabricated pipe nipple products and steel pipe products in accordance with different international standards mainly in our production plants in Jinan, Shandong Province, the PRC. Upon receiving customers' confirmation for our orders, our sales and marketing team will discuss with our production team on the production of the standard prefabricated pipe nipple products and steel pipe products in order to ensure the products are manufactured according to the specific requirements or international standards set out in the contracts or purchase order with our customers. Depending on our then available resources and capacity, we also purchase pre-processed SSAW steel pipes from our suppliers to satisfy our orders. In cases where enquiries are related to assembled piping system which involve the design of assembled piping system to satisfy customised requirements and typical application scenarios of customers, our customers will provide us with the desired layout plan and/or specifications. Our sales and marketing team and technical personnel also engage in the design process with our customers. We maintain an optimal inventory level for standard prefabricated pipe nipple products, ERW steel pipe products and SSAW steel pipe products. If there is enough inventory to satisfy the order, we will arrange delivery of our products to our customers' designated site in accordance with the delivery schedule. On the other hand, if we have insufficient inventory to satisfy the purchase orders, our production team will commence manufacturing of the requested standard prefabricated pipe nipple products or steel pipe products to make up for the shortfall. On the other hand, we do not keep customised steel pipe products or products for assembled piping system as inventory as the product specifications and the requirements under each order are different. See "Inventory Management" below for further details.

Our sales channels

We have established sales channels across the world. Our sales in the overseas markets are made through direct sales and wholesaling whereas our sales in the domestic market are made through direct sales, wholesaling and distributorship. For domestic sales, as our steel pipe products are used and applied in the municipal pipeline system designed for natural gas, water supply, sewage, HVAC and fire extinguish water steel pipes for firefighting, during the Track Record Period, our Group also received tender invitation from gas and HVAC companies, and water supply companies for the supply of standard prefabricated pipe nipple products and steel pipe products. For details of our sales channels, see "Sales and Marketing" below.

The following table sets forth the breakdown of our sales revenue by sales channels during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Domestic market								
— Direct sales	265,728	58.8	378,093	40.3	499,785	41.1	181,622	44.1
— Distributorship	70,330	15.5	154,168	16.4	140,268	11.6	36,694	8.9
— Wholesaling	28,849	6.4	44,557	4.8	15,493	1.3	12,603	3.1
Overseas markets								
— Direct sales	84,892	18.8	276,878	29.5	343,579	28.3	129,718	31.5
— Wholesaling	2,484	0.5	84,473	9.0	215,714	17.7	50,777	12.4
Total	452,283	100.0	938,169	100.0	1,214,839	100.0	411,414	100.0

Our raw materials and products

The principal raw materials involved in our manufacturing are steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastics. Our standard prefabricated pipe nipple products are primarily manufactured in accordance with international standards such as ASTM A733 or ANSI C80.1. As to our steel pipe products, they can be classified into (i) ERW steel pipes; (ii) SSAW steel pipes; and (iii) customised steel pipes which are all processed on the ERW steel pipes manufactured by us under customers' specific requirements. Regarding our ERW steel pipe products and SSAW steel pipe products, they are manufactured in accordance with other international standards such as ASTM A53.

Our production facilities and production process

As at the Latest Practicable Date, we operated three production plants, two of which were located in Jinan, Shandong Province, the PRC with a total area of approximately 232,655 sq.m. and 80,334 sq.m., respectively and the other one was located in Dong Nai Province, Vietnam with a total area of approximately 3,842 sq.m..

Our steel pipe products are manufactured by two different methods, namely ERW method and SAW method. Under the ERW method, the flat steel coil is formed progressively into a tubular shape as it travels through a series of rollers. ERW steel pipe is formed by feeding a steel coil through rollers that will roll it into a hollow circular shape and squeezing the two ends of the steel coil together will produce a fused joint or seam. With respect to the SAW method, it can be further divided into SSAW method whereby a SSAW steel pipe is formed by twisting strips of steel coil into a spiral shape, then welding the edges join one another to form a seam. Our standard prefabricated pipe nipple products are manufactured by cutting, threading or further processing of ERW steel pipes manufactured by us or other pre-processed pipes such as stainless steel pipes, brass pipes or seamless steel pipes purchased from our suppliers. See "Business Model" below for further details.

COMPETITIVE STRENGTHS

Our Directors believe that we possess the following competitive strengths, which have contributed to our success and distinguished us from our competitors:

We offer high quality standard prefabricated pipe nipple products and steel pipe products of different specifications which meet various international and domestic standards

Our Directors believe that the quality and reliability of our products are vital in maintaining customer loyalty and upholding the reputation of our Group which contributed to our success and business expansion. To this end, we have put in place a stringent quality control system covering our entire production process, from selection of suppliers, procurement of raw materials, production, quality and reliability assurance to maintenance of production equipment and machineries. Our quality control capabilities had been accredited with, among others, ISO 9001 certification, ISO 14001 certification and OHSAS 18001 certification. For details of our quality control procedures, see "Quality assurance" below. To further strengthen our quality control capability and to ensure our products quality, we are equipped with a comprehensive range of quality control machinery including hydrostatic testing machine, x-ray inspection and spectrum analysis instrument to oversee the quality of our raw materials, works in progress and finished products. These testing machineries are capable of detecting cracks and impurities in our products and hence we are able to rectify any quality defects in an effective and efficient manner. Our Directors believe that the quality of our products are reflected by our registrations and approvals from notable organisations in different countries such as certificate issued by the API of the United States and certificates issued by the Standards of Institution of Israel.

According to the Frost & Sullivan Report, the specifications of standard prefabricated pipe nipples products and steel pipes products have become increasingly complicated. Our Directors believe that our ability to design and manufacture highly customised products can effectively differentiate ourselves from other industry players. In addition, there are a number of international and domestic standards in relation to the requirements for standard prefabricated pipe nipple products and steel pipe products. Our Directors are of the view that we have consistently produced high quality products which meet industry standards and as such has distinguished our Group from our peers. We possess the ability to manufacture standard prefabricated pipe nipples products and steel pipes products in accordance with over 20 international standards such as (i) ASTM A733 and ANSI C80.1 for standard prefabricated pipe nipples products; and (ii) ASTM A53 and Israel Standard No. 4314 for steel pipe products, that can meet the needs of our customers from different countries. Our production team deploys its expertise and experience to enhance our efficiency and quality in production by planning our production schedule ahead and improving our industry techniques in the manufacturing of standard prefabricated pipe nipple products and steel pipe products. We also utilise ERP software system to enhance our production management, which allows us to assess data in respect of our production level in a more efficient manner and to better optimise our production planning. Hence, we are able to satisfy customers' needs in a timely manner. The expertise of our production team complied with our technological system can assist us to optimise production efficiency, which in turn would reduce our production cost, and at the same time ensure the quality of our manufactured products.

Owing to our stringent quality control system, our Directors believe that we are able to consistently deliver to our customers quality products that meet their expectations. Our Group was awarded "Belt and Road Model Enterprise" (一帶一路示範企業) by the Committee of

Enterprise Leaders of the Greater Bay Area (大灣區首屆企業領袖峰會暨頒獎盛典組委會) in 2019, "Advanced Enterprise of Pingyin County" of 2017 (平陰縣先進企業) by People's Government of Pingyin (平陰縣人民政府) and "Most Influential Manufacturer of Gas Equipment" (燃氣行業產業聯盟網絡最具影響力燃氣物資設備製造商) by China Cities Gas Resources Procurement Alliance (中國城市燃氣物資採購聯盟) in 2018. For further details of the major awards and accreditations received by our Group, see "Business — Major awards and certifications" below.

Our industry knowledge and expertise enable us to provide customised steel pipe products of different specifications to accommodate customers' requirements

Some of our steel pipe products are used in areas with complex environment, for example extreme temperatures, pressure and humidity mainly for the use of transmission of water and gas and HVAC system. Under these severe climate conditions, the zinc and plastic double coating can resist the humid environment along coastal areas and the polyester coating can protect our steel pipe products from ultraviolet under broad sunlight. With the expertise and experience of our technical personnel, we are also capable of manufacturing customised steel pipe products and that can adopt to the unusual geographic environment and climate. Our production team is also able to make adjustments to cater for specific production requirements of products with different customers' specifications and standards including anti-corrosive and heat-resistant coatings to prevent acidic and high-ultraviolet conditions.

Leveraging our industry knowledge and expertise, we are also capable of designing and supplying assembled piping system for our customers. Our customers would also seek our technical advice or input to their design and/or engineering solutions for their desired assembled piping systems through BIM and three-dimension design system to minimise wastage of material and hence production costs. Our sales and marketing team maintain close contact with our customers to keep abreast of any change in our product offerings and our evolving technical advancements in our manufacturing process. We believe our expertise in the standard prefabricated pipe nipple and steel pipes manufacturing industry had provided confidence to our customers and had further enhanced our relationship with them. Such knowledge and expertise in the industry had differentiated us from other competitors in the PRC and enable us to obtain recurring business from our customers and allowed us to maintain sustainable relationship with our customers. By offering a wide range of products, coupled with our ability to provide customised steel pipe products and design and supply of assembled piping systems, we can accommodate different customers' requirements efficiently and at the same time lower our customers' cost for procuring steel pipe products from different manufacturers which had given us a competitive edge in the industry.

We have strong research and development capabilities and have been granted the status of High and New Technology Enterprise* (高新技術企業)

We place great emphasis on research and development to keep in pace with technology innovations and advances, which, we believe will enable us to stay competitive, continuously provide high-quality services to our customers and enhance our efficiency and productivity. Over the years, we have accumulated abundant technology experience in the standard prefabricated pipe nipples industry and steel pipes industry. Jinan Mech and Jinan Ma Steel were accredited as High and New Technology Enterprise by the Department of Science & Technology of Shandong Province. Our research and development team will also discuss with our customers to understand their needs and requirements, and turn the customers' conceptual designs or ideas into deliverable and commercialised products, and recommend the proper and suitable specifications of our products, which would in turn enable us to secure more purchase orders and expand our customer base in a long term. Our research and development team also provides design enhancement to our customers.

As at 31 May 2019, we were supported by a dedicated team of 102 research and development staff who place a strong focus on product realisation, commercialisation and improvement. They also have extensive experience in the standard prefabricated pipe nipple industry and steel pipes industry in the PRC. For the three years ended 31 December 2018 and the five months ended 31 May 2019, we engaged in an aggregate of 71 research and development projects, our expenses related to research and development, which comprise of cost of materials, staff costs, utilities, depreciation and others, amounted to approximately RMB21.9 million, RMB33.8 million, RMB50.0 million and RMB17.6 million, respectively, representing approximately 4.8%, 3.6%, 4.1% and 4.3% of our total revenue, respectively for the corresponding periods.

We intend to increase the application of functionalised technology to meet the market trend of more demanding specifications in standard prefabricated pipe nipples products and steel pipe products. We have also developed equipment tailored to our manufacturing process and products. For example, our patented device, namely "a deep-processing steel pipe anti-collision conveyer* (一種深加工鋼管防碰撞傳送裝置)" allows us to reduce the collision of pipes during the manufacturing process, which in turn ensure the surface quality of our products. In addition, we strive to improve our manufacturing process through our research and development efforts which are reflected in our other patents such as "a deburring equipment in longitudinal welded pipe* (一種直縫焊管內毛刺刮除設備)", "an automatic feeding device for steel pipe joint threading and chamfering* (一種鋼管接頭套絲倒角自動上料裝置)", and "a machining equipment for automatic steel pipe grooving* (一種鋼管自動壓槽加工設備)". As at the Latest Practicable Date, we have obtained 59 patents which include (i) 14 invention patents (發明專利); (ii) 40 utility models patents (實用新型專利); and (iii) five design patents (外觀專利) in the PRC which are products of our research and development effort. For further details, please see "Intellectual property" below.

Our research and development capabilities had been highly recognised within the industry in the PRC which we had, on several occasions, been invited to share our expertise and experience in the research and development of steel pipe products on a national level. During the Track Record Period, we had participated in establishing the domestic standard CJ/T120 plastic coated steel pipes for water supply* (給水塗塑復合鋼管), we were also invited to take lead in establishing the group standard T/CNHA1018 spiral steel pipe nipples* (螺紋式鋼管接頭), which had been published in April 2019. Our Directors are of the view that our strong research and development capabilities, coupled with our recognised experience and expertise in the standard prefabricated pipe nipple and steel pipes manufacturing industry have allowed us to retain existing customers and remain competitive in the market.

Established, stable and diversified customer base with reputable customers

Over the years, we have built up a solid and stable customer base within the PRC and around the globe. During the Track Record Period, we had customers from over 50 countries and our major customers are from, among others, United Arab Emirates, Singapore, the U.S. and the PRC. Our Group have established stable business relationships with our customers and are committed to deliver high quality standard prefabricated pipe nipples products and steel pipe products and customer services. We contact our customers from time to time to collect customers' feedback on the quality of our products and we utilise these information to improve our products, operations and future development.

As a reflection of our capability, our top five customers include a number of reputable companies such as ENN Group, a group of companies which principally engage in the provision of gas and energy in the PRC and the shares of the holding company are listed on the Stock Exchange and Jinan Heating Group Company Limited* (濟南熱力集團有限公司). Our five largest customers during the Track Record Period include gas and HVAC companies, distributors and wholesalers which engaged in the sales of steel pipes and standard prefabricated pipe nipples and fire protection companies and our revenue attributable to them accounted for approximately RMB176.1 million, RMB363.2 million, RMB377.8 million and RMB117.8 million, respectively, representing 38.9%, 38.7%, 31.1% and 28.7% of our total revenue, respectively for the corresponding periods.

Our Directors believe that we are able to meet the high standards of established and leading corporate customers throughout the years given the high quality and wide variety of product offerings. These reputable customers have high standards of quality control requirements and would expect a high quality of services from its service providers. We believe that our success in establishing stable and long term customer relationships with such reputable customers has demonstrated our strength in delivering high quality of products and services in a consistent, timely and efficient manner.

We have an experienced management team and technical staff with profound industry knowledge

We are led by an experience management team comprising our executive Directors and members of senior management team. Our management team has extensive industry experience and a proven track record in the business management and manufacturing of standard prefabricated pipe nipples products and steel pipes products. In addition, our strong and highly motivated sales team enable us to sustain good business relationship with our existing customers and to develop new business relationship with potential customers. Members of our sales team possess relevant experience and technical knowledge to handle customers' queries and to recommend value-added and customise products and services to meet their needs.

Mr. Kong, our Chairman, Controlling Shareholder and executive Director has over 25 years of experience in business management and operation and had led our Group to expand our business operations over the years. Mr. Guo, our executive Director, has over 20 years of experience in the pipe and foundry industries. In addition, member of our senior management team, such as, Mr. Fang Xingjun and Mr. Wang Ning each has more than 20 years of experience in pipes manufacturing and production. To enhance management efficiency of our Group, we have employed a team of senior management with concrete experience in various aspects, including but not limited to finance, sales and marketing, production and research and development to assist our Board in the daily management and operation of our Group. In particular, our Directors believe that our sales and marketing team had contributed to the expansion of our overseas markets sales throughout the Track Record Period. See "Directors and senior management" for further details on the qualifications and experience of our Directors and members of our senior management team.

OUR BUSINESS STRATEGIES

We intend to enhance our Shareholders' value by leveraging our expertise in the manufacturing of standard prefabricated pipe nipples products and steel pipes products and continuing to provide design and supply assembled piping services with a view of increasing our market share. To achieve these goals, we are pursuing the following key strategies:

Increase our production capacity for ERW steel pipes by the addition of new production lines

Our Directors believe that it is imperative for us to acquire addition ERW steel pipes production lines due to the following reasons:

Expected market growth. According to the Frost & Sullivan Report, the market size of ERW steel pipes manufacturing industry is expected to grow at a CAGR of 4.2%, reaching RMB44.0 billion in 2023. Such growth is mainly supported by infrastructural developments and growth in the construction industry in the PRC. To capture the anticipated increase in the demand of our ERW steel pipe products and our customers' needs, our Directors intend to further increase our production capacity so as to increase our market share in the industry.

Our historical high utilisation rate. For the five months ended 31 May 2019, our utilisation rate of welding, anti-corrosive treatment (zinc ingot) and coating of the production lines of our ERW steel pipes had reached 105.5%, 98.2% and 123.6%, respectively. For details of our production facilities and our production capacity, please see "Production facilities — Production capacity" below. The high utilisation rate of our production lines of ERW steel pipes had hindered our ability to capture additional orders from our existing and new customers.

We did not have enough capacity to satisfy potential customers' quotations during the Track Record Period. Our Directors are of the view that our high utilisation rates has hindered our ability to undertake customers' orders. During the Track Record Period, we received but did not pursue potential customers' written quotations request or verbal enquiry from time to time due to various reasons including but not limited to our relatively high utilisation of production capacity for fulfilling orders or inability to fulfill the delivery schedule required by potential customers. Nevertheless, in order to maintain our relationship with our customers and maintain our presence in the industry, we still issued written quotations to some of our potential customers with terms and conditions which our Directors consider as less competitive (i.e. quotations which we have factored a higher price than that of our ERW steel pipes of similar specifications offered to other customers) with an aggregated estimated amount of approximately RMB23.0 million and 4,600 tons. The amount and quantities represented only a portion of our turned down orders and were estimated to the best knowledge of our Directors upon making all reasonable enquiries and based on all available information. As to the verbal enquiry that we have turned down during the Track Record Period, we were not able to quantify the amount and quantities. In view of such high utilisation rates, our Group purchased two additional ERW steel pipe production lines for welding and coating at an acquisition cost of approximately RMB10.4 million and RMB1.4 million, respectively. Both of the ERW steel pipes production lines were located at our PRC production facilities and commenced operation in June 2019. It is expected that (i) the annual production capacity for welding will increase by approximately 20,752 tons to approximately 151,130 tons (representing an increase of approximately 15.9%); and (ii) the annual production capacity for coating will increase by approximately 11,435 tons to approximately 43,435 tons (representing an increase of approximately 35.7%).

Expected increase in demand for our ERW steel pipes from existing customers for the year ending 31 December 2019. Although our newly acquired ERW steel pipe production lines for welding and coating had commenced operation in June 2019, our Directors estimated that all of our ERW steel pipe production lines will nearly reach their designated production capacity by the end of 31 December 2019 taking into account our orders received and historical performance.

The following table sets forth our expected production capacity of our ERW steel pipe for each of the three years ending 31 December 2021.

	For the years ending 31 December		
	2019	**2020**	**2021**
	(tons)	*(tons)*	*(tons)*
ERW steel pipes *(Note)*			
— Welding	142,663	164,060	202,310
— Anti-corrosive treatment (zinc ingot)	86,009	86,009	86,009
— Coating	38,669	45,935	53,435

Note: The expected production capacity has taken into account (i) our two newly acquired ERW steel pipe production lines in June 2019; and (ii) the three additional ERW steel pipe production lines to be acquired by our Group by the third quarter of 2020. The above expected production capacity of our ERW steel pipe production lines for welding and coating has only reflected the expected increase in production capacity between October and December 2020. For illustrative purpose, assuming our ERW steel pipe production lines are in full operation, the annual production capacity of our ERW steel pipe production lines for welding and coating for the year ending 31 December 2020 are expected to be approximately 202,310 tons and 53,435 tons, respectively.

Expected high utilisation rate for the year ending 31 December 2019. Based on our (i) orders on hand; and (ii) expected increase in sales orders from both existing customers and new customers which is evidenced by the increase in the orders for both ERW steel pipe products and customised steel pipe products received from June to September 2019, of approximately 19.8%, as compared to the same period of 2018, the utilisation rate for welding and coating for the year ending 31 December 2019 will be approximately 91.1% and 113.6% respectively. As such, notwithstanding we had acquired new production lines in June 2019, our Directors are of the view that our newly acquired production lines are not sufficient to satisfy our customers' demand. The following table sets forth our expected production capacity, expected production volume and expected utilisation rate for the year ending 31 December 2019:

	Expected production capacity *(Note 1)* *(tons)*	**Expected utilisation rate** *(Note 2)* *(%)*
Welding	142,663	91.1
Coating	38,669	113.6

Notes:

1. The newly acquired ERW steel pipe production lines for welding and coating commenced operation in June 2019. The expected production capacity of our ERW steel pipe production lines for welding and coating for the year ending 31 December 2019 has only reflected the increase in production capacity since June 2019. For illustrative purpose, assuming the two newly acquired ERW steel pipe production lines are in full operation, the annual production capacity of our ERW steel production lines for welding and coating for the year ending 31 December 2019 are expected to be 151,130 tons and 43,435 tons, respectively.

2. After the commencement of operation of the newly acquired welding and coating ERW steel pipe production lines, for illustrative purpose, the utilisation of our ERW steel pipe production line for welding and coating were approximately 87.8% and 126.5% for June to September 2019, respectively.

Enquiries received from customers for the year ending 31 December 2020. Further, as at 30 September 2019, we received sales enquiries for the year ending 31 December 2020 with an expected total sales volume of approximately 79,000 tons, of which (i) 54,000 tons were from some of our existing customers, representing a potential increase of approximately 19,000 tons from these existing customers; and (ii) approximately 25,000 tons were from new customers.

Taking into account (i) our customers enquiries received for the year ending 31 December 2020; (ii) the expected market growth; and (iii) our utilisation rate of ERW production lines for welding and coating for the year ending 31 December 2019 will be approximately 91.1% and 113.6% respectively, our Directors take the view that there will be sufficient demand for our ERW steel pipe products for the year ending 31 December 2020. It is crucial for us to enhance our production capacity in order to cope with the simultaneous growth of ERW steel pipes manufacturing industry, to capture the business opportunities and optimise our profitability.

We will acquire additional machinery and equipment for the production of our ERW steel pipes. In particular, we intend to acquire three new production lines for the manufacturing of ERW steel pipes, and we estimate the capital expenditure in such acquisition to be approximately RMB51.0 million (equivalent to approximately HK$59.3 million). Out of such capital expenditure, we plan to finance the plan with approximately RMB27.3 million (equivalent to approximately HK$31.8 million) from the net proceeds from the Global Offering, or approximately 19.0% of the net proceeds of the Global Offering and the rest by internal resources. Details of the three new production lines are set out below:

Type of production line	ERW production lines by machinery/ equipment type	Description of machinery and equipment	Quantity *(tons)*	Expected annual production capacity of production line *(tons)*	Estimated investment *(RMB' million)*	Net proceeds from the Global Offering to be used *(RMB' million)*	Internal resources
76 ERW steel pipe high-frequency production line	Welding production line	For the production of ERW steel pipes which have diameter from 33.4 mm to 60.3 mm and with a thickness from 2.0 mm to 5.0 mm	1	25,000	14.7	7.8	6.9
140 ERW steel pipe high-frequency production line	Welding production line	For the production of ERW steel pipes which have diameter from 60.3 mm to 114.0 mm and with a thickness from 3.5 mm to 7.0 mm	1	26,000	17.5	9.4	8.1
Pipe coating production line	Coating production line	For paint coating treatment	1	10,000	18.8	10.1	8.7
Total					**51.0**	**27.3**	**23.7**

We expect that the production lines will commence commercial operation by the third quarter of 2020 in order to increase our production capacity.

Comparison of ERW steel pipe production lines to be acquired and our existing ERW production lines

Our Group acquired two ERW steel pipe production lines for welding and coating. Both of them had commenced operation in June 2019. Two of the three ERW steel pipe production lines to be acquired with the net proceeds from the Global Offering are welding production lines while the remaining one is a coating production line.

(a) Welding production lines

During Track Record Period, our Group had a total of five welding production lines. The acquisition costs for each of the production lines ranges from approximately RMB6.5 million (include tax) to RMB12.5 million (include tax) and have been in operations for up to five years. As to the newly acquired ERW steel pipe production lines for welding, the acquisition cost is approximately RMB10.4 million (include tax). After the addition of the newly acquired ERW steel pipe production line for welding, the annual production capacity for our welding production lines will increase to 151,310 tons.

For the two welding production lines that are to be acquired with the net proceeds from the Global Offering, the costs of acquisition are expected to be approximately RMB14.7 million (include tax) and RMB17.5 million (include tax), respectively. The expected annual production capacity of the two lines are approximately 25,000 tons and 26,000 tons, respectively, representing approximately 120.5% and 125.3% of the capacity of the acquired ERW steel pipe production lines for welding, which has an annual production capacity of 20,752 tons. Our Directors expect that the aggregate expected annual capacity of the two welding production lines that are to be acquired with the net proceeds from the Global Offering will increase our Group's annual production capacity for welding by 33.7%.

As compared to the newly acquired ERW steel pipe production lines for welding, the two welding production lines that are to be acquired with the net proceeds from the Global Offering will

— have 20.5% and 25.3% more annual production capacities, respectively;

— increase the level of automation for multiple steps, e.g. material feeding, inspection, packaging and collecting scraps;

— simplify production process by applying hydrostatic testing without trimming;

— be able to adjust for different models of products electronically;

— add an extra function of annealing; and

— enhance the consistency of products and efficiency of production.

(b) Coating production lines

Our Group had a total of three coating production lines during the Track Record Period. The acquisition costs for each of the production lines range from approximately RMB2.5 million to RMB3.3 million and have been in operation since 2015. As to the new production line for coating, the acquisition cost is approximately RMB1.4 million (include tax). After the addition of the new ERW steel pipe production lines for coating, the annual production capacity for our coating production lines will be increased by 10,000 tons and the annual production capacity will be approximately 43,435 tons.

For the coating production line that is to be acquired with the net proceeds from the Global Offering, the costs of acquisition is expected approximately RMB18.8 million. The expected annual production capacity that the acquisition will bring to our Group will be approximately 10,000 tons, which is an increase of approximately 23.0% of our Group's annual production capacity for coating.

The new coating production line will apply a different technology of painting with the following functions;

— hoisting pipes as a new way of positioning pipes so that it can reduce damage to the zinc-coating layer on inner surface;

— applying blasting method to shave oxide layer, rust and welding slag on the surface of steel pipes to increase adhesion of paint layer;

— high-quality coating layer in terms of the uniformity;

— capability of electrostatic coating with water-based and oil-based paints;

— production of a wide range of specification for painting with a thickness up 75um for the paint layer;

— high efficiency and flexibility of transmission with a semi-auto feeding and transmission system;

— high-level of automation, including but not limited to automatic packaging and labelling; and

— treatment of waste gas by regenerative catalytic oxidizer method.

As our Group has emphasis product quality of its products to meet customers' demands and various domestic and international standards, our Directors are of the view that (i) the increase in production efficiency that will be brought by higher level of automation; and (ii) the enhancement of product quality of the welding and coating production lines will improve our Group's competitiveness with other market players and will allow our Group to capture market share in the ERW steel pipe market.

Strengthen our competitiveness by upgrading our SSAW steel pipes production lines

Our Group also intends to upgrade our production line for SSAW pipes production by replacing one of our SSAW production line currently in use to capture the foreseeable growth suggested by the Frost & Sullivan Report, as it is expected that the market size of the SSAW steel pipes market will increase from RMB104.0 billion to RMB127.0 billion from 2018 to 2023, with a CAGR of 4.1%. The SSAW production line being replaced has been in use since 2002 and had been in production for the longest period of time among the current four production lines and has the largest production capacity which has an annual production capacity of approximately 32,128 tons. Our Directors consider that any disruption of the operation due to malfunction of such SSAW production line will bring considerable adverse effect to our operating and financial position. As at 31 May 2019, we had four production lines which were used in the manufacturing of our SSAW steel pipe products and the average remaining useful life of our SSAW steel pipes production lines was zero. We adopt a straight-line depreciation policy on our machinery and equipment for approximately five to 15 years. We determine the estimated remaining useful life of our major machinery and equipment based on, among others, expected usage, expected physical wear and tear and our experience on similar machinery and equipment. For details of the relevant accounting policies and estimates, see note 14 of the Accountants' Report set out in Appendix I to this prospectus. Although our SSAW steel pipe production lines have estimated average remaining life of zero, our Directors consider that with proper maintenance, the operational life of the production lines could be over their average useful life. Nevertheless, our Directors are of the view that replacement of aged machinery and equipment would reduce risk in our operations, minimise downtime and defective rate and enhance overall production efficiency. On the other hand, for each of the three years ended 31 December 2018 and the five months ended 31 May 2019, the SSAW production line to be replaced had experienced 16 times, 25 times, 29 times and six times breakdown primarily due to equipment and parts malfunctions and the relevant repair and maintenance cost amounted to approximately RMB127,000, RMB154,000, RMB249,000 and RMB135,000, respectively. During the repair and maintenance period, the relevant SSAW production line had to temporarily cease operation. For SSAW steel pipe products that do not meet our requirements and specifications, they will be reprocessed. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, approximately 4.2%, 4.9%, 4.1% and 4.3% of our SSAW steel pipe products manufactured by the SSAW production line to be replaced had to be reprocessed.

The new 2540 SSAW steel pipe production line not only has a production capacity which double the one to be replaced, it can also manufacture a wider range of products which our Group do not have the relevant capability with our existing production line during the Track Record Period and thus is able to further broaden our Group's product portfolio. On the other hand, our Group (i) had received enquiries from both existing and potential customers on the production of SSAW steel pipes with specifications of diameters from 1,600 mm to 3,000 mm and thickness up to 25.4 mm during the Track Record Period; and (ii) also tender opportunities for SSAW steel pipe products with such specifications in the sum of more than 160,000 tons from 2017 to 2019. However, our Group were not able to secure those business opportunities during the Track Record Period to manufacture such SSAW steel pipe products as we were only able to manufacture SSAW steel pipes with diameter ranging from 508 mm to 1620 mm and thickness ranging from 6.0 mm to 12.0 mm. After the acquisition of the 2540 SSAW steel pipe production line, we will be able to manufacture SSAW steel pipes with diameter from 508 mm up to 3,000 mm and thickness of 6.0 mm to 25.4 mm. In addition to the benefit of expanding our product portfolio from installing the 2540 SSAW steel pipe production line, the new production line will have a higher level of automation in our production process which will minimise our labour costs. Our Directors estimate that the average labour cost per ton would decrease from approximately RMB92.6 per ton to RMB49.4 per ton, representing a decrease of approximately 46.7%. For illustration purpose, based on the capacity of the new SSAW production line, and the average utilisation rate for the three years ended 31 December 2016, 2017 and 2018, the decrease in the annual labour costs are expected to be approximately RMB2.9 million, and at the same time enhance our efficiency in production. This is calculated with reference to (i) the core step of welding of the 2540 SSAW production line would reduce the need for workers from three persons to two persons per shift, and (ii) assuming the utilisation rate remains stable as the average of the three year ended 31 December 2018.

Our Directors consider that it is vital to purchase new machinery and equipment and to replace our aged machinery and equipment in our production lines on the following grounds:

(a) Maintain our competitiveness within the industry

According to Frost & Sullivan Report, in recent years, the demand for high-performance varieties used in the urban water and gas sector, such as large-caliber power station boiler tubes have increased rapidly. As the manufacturing industry shifts towards the higher end of the value chain, it is necessary to refit and upgrade the traditional manufacture equipment segment, and encourage outbound growth in order to produce high-grade steel pipes efficiently, which are increasing in demand, and to enhance the industry's competitiveness.

In particular, as mentioned above, the new 2540 SSAW steel pipe production line allows us to manufacture SSAW steel pipes with longer diameters and larger thickness, which in turn expand our product portfolio. Our Group had encountered business opportunities for SSAW steel pope products with such specifications during the Track Record Period but we were not able to secure those business opportunities due to the limitation of the then product portfolio.

In view of the above, to cope with the emerging demand and intensifying competition among the industry, our Directors believe that we shall further upgrade our products in order to enhance our competitiveness among the industry participants.

(b) Ensuring our product quality

Our SSAW steel pipe products are used in main and long distance pipelines for the conveyance of water and gas due to their tolerance to high temperature and pressure and their impact strength, our Directors believe that any quality failure in the SSAW steel pipes used in such pipeline systems might bring serious consequences to the safety and well being of the public at large and hence the tolerance level for quality failure of SSAW steel pipes to be used in these pipeline systems is low. As such, our Directors consider that having adequate and up-to-date machinery and equipment in our SSAW steel pipes production lines plays a crucial role in ensuring our product quality satisfy the diversified industry standards and hence maintaining our position as a reliable and quality supplier to our customers in the industry.

We estimate the capital expenditure for the acquisition of the SSAW steel pipe production line to be approximately RMB59.9 million. We intend to utilise approximately RMB32.1 million (equivalent to approximately HK$37.3 million) from the net proceeds from the Global Offering or 22.3% of the net proceeds of the Global Offering and the rest by internal resources, for the acquisition of a production line to replace one of the existing production lines. After the installation of the 2540 SSAW steel pipe production line, our annual production capacity of SSAW steel pipe products will be increased by approximately 47,872 tons, while the three remaining SSAW steel pipe production lines will have an annual production capacity of approximately 38,152 tons. The expected acquisition costs of the new 2540 SSAW steel pipe production line includes all the machinery and components. For comparison purposes, after taking into account all the machinery and equipment of other production processes and ancillary equipment, e.g. weight-lifting system, the aggregate costs of each of the four SSAW production lines ranged from approximately RMB5.7 million to RMB17.7 million (tax included). In particular, the expected historical acquisition cost of the SSAW production line to be replaced was approximately RMB17.7 million (tax included). The expected investment in the new 2540 SSAW production line will be approximately RMB59.9 million, which is approximately 3.4 times of the existing SSAW production line to be replaced. Set out below is the details of the production line that our Group intends to purchase:

Type of machinery and equipment	Description	Quantity	Expected addition in annual production capacity of the production line (*tons*)	Estimated investment (*RMB' million*)	Net proceeds from the Global Offering to be used (*RMB' million*)	Internal resources (*RMB' million*)
2540 SSAW steel pipe production line	For the production of SSAW steel pipes which have diameter from 508 mm to 3,000 mm and with a thickness up to 25.4 mm	1	47,872	59.9	32.1	27.8

Our Directors consider that replacing all of our SSAW production lines at the same time may (i) cause prolonged interruption and material disruption to our operation as the new 2540 SSAW production line has to undergo a trial run period during which it has to be calibrated and adjusted before it can fully reach its designed production capacity; and (ii) exert burden on our Group's financial position or cash flow status. After the operation of our new 2540 SSAW production line is in full swing, depending on our then available resources, customers orders on hand and utilisation rate of production lines, we may consider replacing the remaining SSAW production lines by phase in the future.

The following table sets forth our expected production capacity of our SSAW steel pipes for each of the three years ending 31 December 2021.

	For the years ending 31 December		
	2019	2020	2021
	(tons)	*(tons)*	*(tons)*
SSAW steel pipes	70,280	82,248	118,152

We expect that the 2540 SSAW steel pipe production line will commence operation by the fourth quarter 2020 in order to increase our production capacity.

Our Directors are of the view that, as we have received enquires from our existing customers for the production of an aggregate of 14,000 tons of SSAW steel pipe products for the year ending 31 December 2020, which requires the specifications that can only be produced by the new 2540 SSAW steel pipe production line, there will be a sufficient market demand to support the installation of the 2540 SSAW steel pipe production line. Furthermore, the new 2540 SSAW production line can (i) broaden our Group's product portfolio to products with diameters from 1,620 mm to 3,000 mm and thickness from 14.0 mm and 25.4 mm, (ii) enlarge the annual production capacity by approximately 47,872 tons or 149.0% from 32,128 tons to 80,000 tons, (iii) the extent of automation which enables our Group to raise the efficiency of production and quality of products, (iv) the additional processing steps, e,g, edge miller, our Directors are of the view that the expected investment in the new 2540 SSAW production line is justifiable for the operation of our Group in that long run.

Set up of new production facility to house our 2540 SSAW steel pipes production line

To align with our plan to strengthen our SSAW steel pipes production, we intend to set up a new production facility with a area of approximately 22,848 sq.m. on a plot of land owned by us adjacent to our current production facilities. The estimated total investment cost for setting up a new production facility is approximately RMB25.1 million. We intend to utilise approximately RMB13.5 million (equivalent to approximately HK$15.7 million), representing 9.4% of the net proceeds of the Global Offering and the remaining of approximately RMB11.6 million by internal resources to set up the new production facility. The costs of setting up the new production facility include the costs of acquisition and installation of a new weight-lifting systems to cater the production needs, ancillary equipment and labour costs in relation to the construction of the new facility. Our Directors intend to house the new 2540 SSAW steel pipe production line as mentioned above in the new production facility. It is expected that the new production facility will complete construction by the fourth quarter of 2020.

Reasons for establishing a new production facility to house the new 2540 SSAW steel pipe production line

Based on the quotation and specification of the new 2540 SSAW steel pipe production line obtained by us, our existing production facility does not have sufficient space to house the new 2540 SSAW steel pipe line even after removing one of our existing SSAW production line. Our Directors estimated that we need to set aside a larger area to house the new 2540 SSAW steel pipe production line. In addition, the new 2540 SSAW steel pipe production line can manufacture SSAW steel pipes with diameter up to 3,000mm and thickness up to 25.4mm. The types of steel coils to be used by the new 2540 SSAW steel production line can weight up to approximately 30 tons which exceeds the maximum loading capacity of approximately 20 tons of our weight-lifting equipment currently installed in our existing producing facility. A new weight-lifting system with higher specifications which have to be installed to optimise the production of the 2540 SSAW steel pipe production line. Furthermore, to support the operation of the new 2540 SSAW steel pipe production line which comprises over 40 units of sub-components and systems, each of them requires a steady supply of electricity which our existing production facility is not able to meet the requirement. Hence, owing to the limited space of our existing production facility and its power supply system, it is not feasible for us to install the new SSAW steel pipe production line in our existing production facility.

As we intend to set up the new production facility to house our 2540 SSAW steel pipe, production line on a plot of land already owned by our Group, our Directors are of the view that it is more cost effective to own the new production facility than lease the new production facility. To further illustrate the benefit of owning a property instead of leasing a property as our production facility to house the 2540 SSAW steel pipe production line, the following table sets forth a cost-benefit analysis for a 10-year period of owning a new production facility versus leasing a production facility with the relevant specifications:

	Year 1 *RMB'000*	Year 2 *RMB'000*	Year 3 *RMB'000*	Year 4 *RMB'000*	Year 5 *RMB'000*	Year 6 *RMB'000*	Year 7 *RMB'000*	Year 8 *RMB'000*	Year 9 *RMB'000*	Year 10 *RMB'000*	Year 1 to Year 10 *RMB'000*
(1) Own a property											
Estimated depreciation costs of buildings *(Note 1)*	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	2,473	24,730
(2) Lease a property											
Estimated rental costs *(Note 2)*	4,113	4,236	4,363	4.494	4,629	4,768	4,911	5,058	5,210	5,366	47,148
Cost saving of owning a property *(Notes 3)*	1,640	1,763	1,890	2,021	2,156	2,295	2,438	2,585	2,737	2,893	22,418

Notes:

1. The estimated depreciation costs are determined in accordance with our depreciation policy by depreciating over the buildings estimated useful life of 10 years on a straight-line basis.

2. The estimated rental costs are determined with reference to the rental rate of a similar production facility equipped with the required specifications in Pingyin County, Jinan and are expected to increase by 3.0% every year.

3. The cost-analysis above is for illustrative purposes only and only estimated the cost-saving amount of owning a property for a period of 10 years, while the term of industrial land use right to be granted is generally 50 years in the PRC. If the analysis above is extended for a longer period of time, the estimated total cost-saving amount for owning a property will increase.

Based on the above comparison, the estimated depreciation charges after acquitting a property is lower than the estimated rental costs. Hence, our Directors believe that it is more cost effective for our Group to acquire and own rather than to lease our new production facility.

Estimated investment payback period for the new production plant

Our Directors consider that the estimated investment payback period for the new production facility, being the time (in terms of number of months) it would take to earn the estimated accumulated net profit (after taxation) generated from the new production plant from the commencement of its operation to cover the total investment costs of the new production facility together with our 2540 SSAW steel pipe production line to be installed, is approximately 4.3 years. The breakeven period of the production facility is expected to be less than one year, which is the period it takes from the commencement of production for the accumulated revenue to be equal to the accumulated expenses of the production facility.

Production facility	**Description**	**Area** *(approximately sq.m.)*	**Estimated investment** *(RMB' million)*	**Net proceeds from the Global Offering to be used** *(RMB' million)*	**Internal resources** *(RMB' million)*
New SSAW production facility	To house our new 2540 SSAW steel pipe production line	22,848	25.1	13.5	11.6

Expand our production to Vietnam

We sold a considerable portion of our standard prefabricated pipe nipple products to overseas customers during the Track Record Period. Our overseas revenue generated from sales of standard prefabricated pipe nipple products amounted to RMB4.6 million, RMB179.0 million, RMB306.4 million and RMB86.4 million for the three years ended 31 December 2018 and five months ended 31 May 2019, respectively. For the three years ended 31 December 2018, there was an increasing trend of our revenue generated from overseas sales of our standard prefabricated pipe nipple products. In addition, we have secured purchase orders from one new customer from the United States and five new customers from South Africa, Americas, in light of the above factors, our Directors are of the view that there shall be sufficient market demand from overseas customers after the Track Record Period.

In December 2018, we leased a production plant in Dong Nai Province, Vietnam with an area of approximately 3,842 sq.m. for a term of three years for the manufacturing of standard prefabricated pipe nipple products. We have relocated some of our standard prefabricated production machineries to our production facility in Vietnam from our PRC production facility and therefore there was no additional capacity of manufacturing of standard prefabricated pipe nipple products. As most of the machinery and equipment in our Vietnam production facility were relocated from our PRC production facility, our Directors confirm that the quality of the products produced in our Vietnam production facility are comparable to those produced in the PRC. As advised by our Vietnam Legal Adviser, the production facility in Vietnam had obtained all relevant permits and licences for operation and had commenced production. We intend to acquire an additional of three production lines in the production facility in Vietnam for the production of standard prefabricated pipe nipples products. In this respect, we intend to finance approximately RMB25.2 million to expand our operations in Vietnam, of which RMB13.5 million (equivalent to approximately HK$15.7 million) will be utilised from the net proceeds from the Global Offering, or 9.4% of the net proceeds of the Global Offering, and the remaining RMB11.7 million by internal resources. Breakdown of the investment costs of setting up the new production lines are as follows:

Type of production lines	Estimated investment	Net proceeds from the Global Offering to be used	Internal resources
	(RMB' million)	*(RMB' million)*	*(RMB' million)*
Production lines for standard prefabricated pipe nipple products	25.2	13.5	11.7

Following the acquisition of new production lines, it is expected that our annual production capacity of each major production steps for manufacturing of standard prefabricated pipe nipples, namely (i) material feeding and cutting, (ii) chamfering, and (iii) processing will be increased by approximately 13,700 hours, 31,600 hours and 190,000 hours, respectively, representing an increase in approximately 5.7%, 10.6% and 12.7% of our existing production capacity of each major production steps, respectively. After the acquisition of the production lines, our Directors expect that our annual production volume will increase by approximately 2,000 tons representing an increase of approximately 7.3% of the current annual production capacity of approximately 27,300 tons, which is calculated with reference to the actual production volumes and utilisation rate for the two years ended 31 December 2018. However, as the production hours of different models of standard prefabricated pipe nipple products vary, the actual increase in annual production volume depends on the specifications of standard prefabricated pipe nipples as required by our customers.

The following table sets forth our expected production capacity of our Vietnam production facility and PRC production facility for each of the three years ending 31 December 2021.

Vietnam

	For the years ending		
	2019	2020	2021
	Production capacity	Production capacity	Production capacity
	(hours)	*(hours)*	*(hours)*
Standard prefabricated pipe nipples			
— Material feeding and cutting	14,364	20,318	30,494
— Chamfering	33,516	47,315	70,786
— Processing	191,520	272,795	413,920

Note:

The actual production hours varies for different types of standard prefabricated products manufactured by our Group due to a number of factors, including but not limited to, the specifications, the complexity of the production process, raw material used, etc. As such, the actual production hours have no directly correlation to the sales volume of our Group. For details of the sales volume of our standard prefabricated pipe nipple products, please refer to "Financial information — Description of Selected Items in Consolidated Statements of Profit or Loss — Revenue by Product".

In respect of our production facilities in Vietnam, we had carried out feasibility study on the establishment of production facilities. Based on our study, our management team had considered that the operation of the production facility in Vietnam will be cost effective due to lower labour cost, tax rates and other operating expenses. There are a number of raw material suppliers with close geographical distant to the production facility which will lower transportation costs of raw material. In addition, the recent trade tension between the U.S. and the PRC had affected certain products that we export to our customers located in the U.S..

To minimise the potential impact of the U.S. tariff on our business, we are of the view that the setting up of the expansion production facility in Vietnam will mitigate the impact on our operations and financial performance.

Our Directors are of the view that the addition of the production lines in Vietnam will increase our production capacity for standard prefabricated pipe nipple products and hence will better serve our customers' demand in these products. Since the commencement of operation of our production facility in Vietnam in January 2019, all of our products manufactured in Vietnam were exported to the U.S.. Taking into account our sales orders of our standard prefabricated pipe nipple products during the Track Record Period, our Directors are of the view that the expected production capacity of the production facilities in Vietnam after the addition of the new production lines cannot satisfy all of our customers' orders from the United States. Products manufactured from our production facilities in Vietnam will not be used, to solely satisfy customers' orders in the United States but will also satisfy customers' orders in other regions such as Europe, Americas, South Africa, Southeast Asia and Middle East. Our Directors consider that such approach can remain our flexibility in serving our customers' demand in these products taking into account the expected transportation costs and the time schedule of our customers from different regions. The addition of production lines can also allow us to further capture the growth in the standard prefabricated pipe nipple products market.

Apart from our business strategies, our Directors confirm we have no intention to limit ourselves to only manufacture standard prefabricated pipe nipple products in our Vietnam production facility is the long term. Our Directors are of the view that our long term expansion plan of our Vietnam production facility such as the product offerings and production capacity depends on various factors including but not limited to (i) the future of the U.S. tariff on our business; (ii) the future market conditions; (iii) the future customer preference and demand in nearby countries; and (iv) the future utilisation rate of our production facilities.

We expect the production lines in Vietnam will commence operations by the fourth quarter of 2020 in order to increase our production capacity.

Expand our business horizontally through acquisition to continue to broaden our product offerings and thereby further enhance our market share

We intend to explore new customers, obtain more purchase orders from existing and potential customers and at the same time maintain our existing clientele in order to increase our market share in the industry and at the same time diversify our product offerings to satisfy the needs and requirements of our existing clients and to attract potential customers. To complement our existing business, we intend to expand our business through horizontal acquisition with other manufacturers in the same industry. Our Directors believe that compared with organic growth, the cost saving and efficiency improvement through the economies of scale by means of acquisition or collaboration would help us free up financial resources and the time of our management team takes to expand our business.

We plan to identify potential targets for acquisition through recommendations and referrals by our network of industry participants. We seek potential acquisition opportunities and select targets based on our industry experience and the following criteria:

Management, qualifications of staff and reputation: We plan to seek potential acquisition or collaboration targets with a devoted management team who possesses relevant experience and expertise, and have a good reputation in the standard prefabricated pipe nipples and steel pipes manufacturing industry which will allow our Group to further expand our existing sales network in the PRC or overseas markets in the future;

Size and scale of operation: We will look for potential targets in the PRC which have a medium size of operation;

Established clientele: We will look for potential targets with established clientele to expand our sales network in different regions in the PRC, and to penetrate into regions in the PRC that are not currently covered by our Group;

Financial condition and growth potential: We will take into account the financial condition and growth potential of the potential acquisition or collaboration target and investigate if there was an upward trend of its financial results in the preceding three years. We expect the potential target shall have a minimum profit requirement of approximately RMB3.0 million per annum and a positive net asset value;

Production capability: We plan to explore opportunities with companies with good production capability (such as machines and production staff), product diversity, efficiency and utilisation rate. As we has not identified an acquisition target, the expected production capacity of the acquisition target is subject to our then production capacity; and

Compliance record: We target companies which have obtained the licences, permits and approvals necessary for conducting their businesses, and have good compliance with relevant laws and regulations.

Our Directors consider that the estimated investment payback period for the acquisition of the potential target, being the time (in terms of number of months) it would take to earn the minimum profit requirement generated from commencement date of taking over by our Group to cover the total investment costs is approximately eight years.

While we will shortlist several acquisition targets based on the aforementioned selection criteria, we intend to only acquire one target. The capital required for the acquisitions would depend, to a large extent, on the size of the acquisition targets. Once we have identified an acquisition target, we intend to conduct on-site visit for the production facilities to assess the condition of the production facilities, environmental protection policies, compliance record, etc.. We also intend to conduct other due diligence processes on the counterparty to ascertain their compliance status and industry reputation. We expect to identify the acquisition target by the third quarter of 2020 and the acquisition will be completed by the first quarter of 2021. We intend to finance approximately RMB26.8 million to implement our plan for horizontal expansion, of which RMB14.4 million (equivalent to approximately HK$16.7 million) will be utilised from the net proceeds from the Global Offering, or 10.0% of the net proceeds from the Global Offering and that RMB12.4 million will be paid out of our internal resources. As at the Latest Practicable Date, we had not identified any target.

Further strengthen our research and development capabilities

As a standard prefabricated pipe nipples and steel pipes manufacturer, our Directors believe that we are distinguished from conventional competitors by providing a wide range of customised steel pipe products as well as design and supply of assembled piping systems. As such, our research and development capabilities play a pivotal role in the success of our business. We intend to further strengthen our research and development capabilities in the following ways:

(i) *Seeking to keep pace with the latest technologies and conduct new product development that address prevailing and expected changes in market:* Our research and development department will continue to keep pace with the latest technologies to deliver standard prefabricated pipe nipple products and steel pipe products that can be applied to our customers' unusual geographic environment and extreme climate and tolerance of frequent natural disaster and provide design and engineering solutions to our customers; and

(ii) *Continuing to improve our research and development capabilities in different aspects:* (a) product quality, design and diversity, for instance, by tapping into the latest trends and technological advances that can enable us to provide a wider range of products tailored to our customers' needs; and (b) production efficiency for improving the assembling process and reducing costs.

The estimated capital expenditure for the below four research and development projects is estimated to be approximately RMB35.0 million. We intend to utilise approximately RMB14.4 million (equivalent to approximately HK$16.7 million) from the net proceeds from the Global Offering representing 10.0% of the net proceeds of the Global Offering and the remaining RMB20.6 million from our internal resources. Details of our research and development projects are set forth as follows:

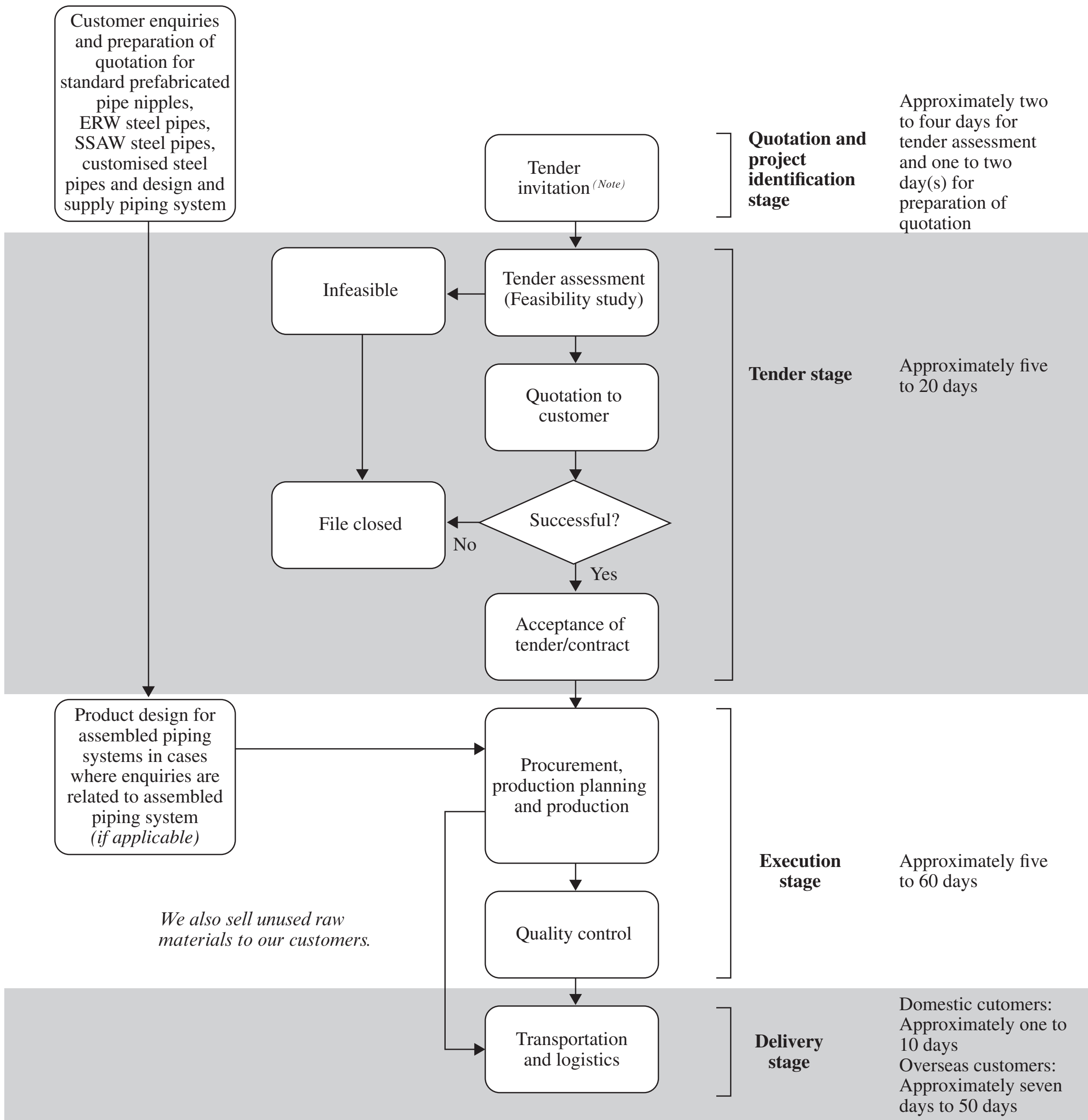
Research and development project	**Description of project**	**Status of project as at the Latest Practicable Date**	**Expected time for completion of the project** *(Note)*	**Estimated investment** *(RMB' million)*	**Net proceeds from the Global Offering to be used** *(RMB' million)*	**Internal resources** *(RMB' million)*
Ultrasonic testing pipe project	Develop ultrasonic testing pipes which are commonly used in quality assurance procedures in the construction industry	Conducted preliminary research	Third quarter of 2020	5.8	2.4	3.4
Chrome plating research project	Develop chromium plated brass prefabricated pipe nipple products	Conducted preliminary research	Third quarter of 2020	15.0	6.2	8.8
Thin wall standard prefabricated pipe nipple project	Develop and produce quality standard prefabricated pipe nipple products with thinner wall which are lighter and more cost-effective	— Conducted market research on (i) market price of similar products; (ii) annual sales by our competitors; and (iii) market requirements of products — Internal discussion on research and development plans and other plans on sales, production and quality control	Third quarter of 2020	5.2	2.1	3.1
Weather proof coating project	Develop weather proof coating steel pipe products for transmission of gas which are resistant to ultraviolet and hence improving durability	— Interviewed with potential customers to understand their needs and product requirements — Conducted research on materials used for coating	Third quarter of 2020	9.0	3.7	5.3
Total				35.0	14.4	20.6

Note: For research and development projects that relate to new products types, our Directors are of the view that the expected launch date of the new products depends on various factors including but not limited to our then production capacity and customers' orders on hand.

BUSINESS MODEL

We manufacture standard prefabricated pipe nipple products and steel pipe products in accordance with different international standards in our production plants mainly in Jinan, Shandong Province, the PRC. Upon receiving customers' confirmation for our order, our sales and marketing team will discuss with our production team on the production of the standard prefabricated pipe nipple products and steel pipe products in order to ensure the products are manufactured according to the specific requirements or international standard set out in the contracts or purchase order with our customers. In cases where enquiries are related to assembled piping system which involve the design of assembled piping system to satisfy customised requirements and typical application scenarios of customers, our customers will provide us with the desired layout plan and/or specifications. Our sales and marketing team and technical personnel also engage in the design process with our customers. We maintain an optimal inventory level for standard prefabricated pipe nipple products, ERW steel pipe products and SSAW steel pipe products. If there is enough inventory to satisfy the order, we will arrange delivery of our products to our customers' designated site in accordance with the delivery schedule. On the other hand, if we have insufficient inventory to satisfy the purchase orders, our production team will commence manufacturing of the requested standard prefabricated pipe nipple products or steel pipe products to make up for the shortfall. On the other hand, we do not keep customised steel pipe products or products for assembled piping system as inventory as the product specifications and the requirements under each order are different.

Set forth below is a diagram illustrating our operational flow for our standard prefabricated pipe nipples, ERW steel pipes, SSAW steel pipes, customised steel pipes and design and supply piping system:



Note: For domestic sales, we also received tender invitation from gas and water supplies companies and HVAC companies.

Quotation and project identification stage

Customer enquiries and preparation of quotation

Enquiries from potential customers are either for standard prefabricated pipe nipple and/or steel pipe products; or a combination of both. Enquiries and requests for quotations are handled by our sales and marketing team, who then prepares the quotation and relevant information with regard to the product type, product price, delivery charge and delivery schedule. Once we have prepared the quotation, our sales and marketing team will send it to the potential customer who will then confirm the order with us either via e-mail acknowledgement or through the issuance of purchase order. Our production team will then plan and schedule the manufacturing of our steel pipe products and/or standard prefabricated pipe nipple products.

Tender invitation

We also receive tender invitation by way of invitation letters or verbal invitations from customers for the supply of standard prefabricated pipe nipple products and/or steel pipe products.

In cases where enquiries are related to customised steel pipe products or design and supply of assembled piping systems which involve designing specific steel pipe products and piping system based on individual customer's request, our sales and marketing team will work together with potential customers to prepare the quotations.

Tender stage

Tender assessment/feasibility study

After receiving the tender or quotation details, we will make preliminary assessment of a potential tender. In considering whether to bid for the tender, we generally take into account the following factors, namely (i) the profitability of the order including the cost of raw materials and labours; (ii) the feasibility of undertaking such project with reference to the technical specifications, our capacity and expertise, our then available labour and financial resources; and (iii) delivery schedule. Our executive Directors and/or sales and marketing team will then decide whether to bid for the tender or not after considering all relevant factors. We may decline a tender invitation if our then prevailing resources are already taken up by other orders.

Quotation to customer

If we consider that a project is commercially viable, our sales and marketing team will prepare the relevant tender document and submit the same to our customers. Prior to the preparation of commercial proposal, our sales and marketing team will first review the products requirements in detail, and obtain preliminary quotations from suppliers for the raw materials required if necessary. We generally quote the prices by considering specific factors including (i) the price of the raw materials; (ii) in respect of assembled piping solutions, the product specifications, functional and quality requirements, complexity of the assembled piping solutions and production process, costs, sales volume, lead time and delivery schedules required by our customers; (iii) the competitive landscape of the market and prices of our competitors' products; and (iv) payment terms. For details of our pricing strategy, see "Pricing and payment terms" below.

Acceptance of tender

Upon receipt of our tender, our customer may, by way of interview or enquiries, clarify with us the particulars of our submitted tender. Once our customer decides to engage us, it will inform us of its acceptance of our tenders by issuing a letter of acceptance to us. A formal agreement will then be entered into between the customer and our Group. For details of the salient terms of our typical contract, see "Key contract terms with our direct sales and wholesale customers" below.

Execution stage

Procurement, production planning and production

(a) Procurement of raw materials

We maintain sufficient inventory level of our major raw materials which include steel coils, pre-processed pipes, zinc ingots and consumable. Upon receiving confirmation from our customers' purchase orders, we will check the inventory level of these raw materials and if necessary, we will place orders with our suppliers who are on our list of approved suppliers. It generally takes approximately 15 days to deliver the raw materials from our suppliers to our production plant. For details of our procurement policy, see "Procurement of raw materials — Raw materials" below.

(b) Production planning

We maintain an optimal inventory level for standard prefabricated pipe nipple products, ERW steel pipe products and SSAW steel pipe products based on our purchase orders. If there is enough inventory to satisfy the order, we will arrange delivery of our products to our customers' designated site in accordance with the delivery schedule. On the other hand, if we do not have sufficient inventory to satisfy the purchase orders, our production team will commence manufacturing of the requested standard prefabricated pipe nipple products or steel pipe products to make up for the shortfall. As to our SSAW steel pipe products, if we do not have sufficient resources or capacity, we also purchase pre-processed SSAW steel pipes from our suppliers, whereby we will provide the required anti-corrosive treatment and coating works to satisfy our orders.

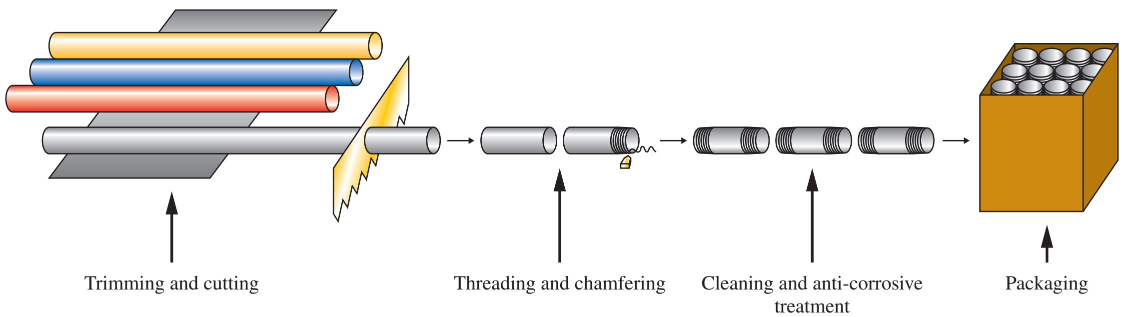
We do not keep customised steel pipe products or products for assembled piping system as inventory as the product specifications and the requirements under each order are different. Planning for manufacturing such products is generally more detailed. Our production team will commence the manufacturing process only when the production plan for each order is finalised.

(c) Production

(i) Standard prefabricated pipe nipple products

To meet the requirements of different piping system of our customers, we provide an array of standard prefabricated pipe nipple products which are used to connect pipe fitting in a piping system for the transmission of various liquid and gases. Our standard prefabricated pipe nipple products are manufactured by cutting, threading or further processing of ERW steel pipes manufactured by us or other pre-processed pipes such as stainless steel pipes, brass pipes or seamless steel pipes purchased as raw materials from our suppliers.

For illustration purposes, the major steps of the manufacturing process of our standard prefabricated pipe nipples are outlined below:



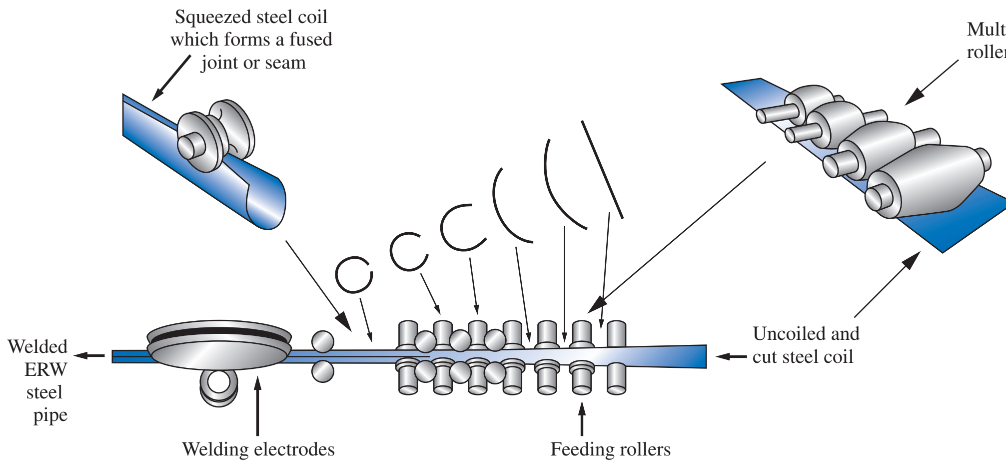
Trimming and cutting	ERW steel pipes or other pipes purchased from suppliers are trimmed and cut into the required length.
Threading and chamfering	Trimmed and cut ERW steel pipes or other pre-processed pipes purchased from suppliers are then threaded. The edges of the steel pipes are chamfered whereby the edges are cut at a certain angle.
Cleaning and anti-corrosive treatment	Trimmed and cut ERW steel pipes or other pre-processed pipes purchased from suppliers are then further cleaned and undergone anti-corrosive treatments.
Labelling and packaging	The final products are labelled with their specifications and the logo of our Group, and are then packaged in bundles before being transferred into storage for delivery to customers.

(ii) Steel pipe products

(a) ERW steel pipes

In the ERW process, the flat steel coils, with trimmed edges to provide a clean, even surface for welding, is formed progressively into a tubular shape as it travels through a series of rollers. ERW steel pipe is formed by feeding a steel coil through rollers that will roll it into a hollow circular shape. Forcibly squeezing the two ends of the steel coil together will produce a fused joint or seam. Welding is done by the application of heat and pressure and no filler material is used. The welding heat for the tubular edges is generated by resistance to the flow of an electric current, which can be introduced through electrodes or by induction.

For illustration purposes, the major steps of the manufacturing process of our ERW steel pipes are outlined below:



Uncoiling and cutting	Steel coils are purchased from suppliers in coiled form and are first inspected by the quality control staff to ensure that they meet the quality requirements of the specific order. They are then uncoiled and cut first for further processing. Each coil is positioned in the centre of the mill and fed into the uncoiling machine. Upon satisfaction of the quality requirements, the coils are then placed on a feed ramp.
Flattening	Uncoiled steel coils are then flattened in order to fulfil the required thickness under various international standards.
Longitudinal cutting, steel belt joining	Uncoiled steel coils are cut into strips of pre-determined sizes to form steel pipes of specific dimensions before they are fed into the forming machine. An electrically operated shear cuts off the end of each steel coil and the steel coils are then welded together to form a continuous steel strip. The continuous strip is then accumulated at the super accumulating unit to ensure that the forming unit is fed with a continuous strip of steel in the production process.

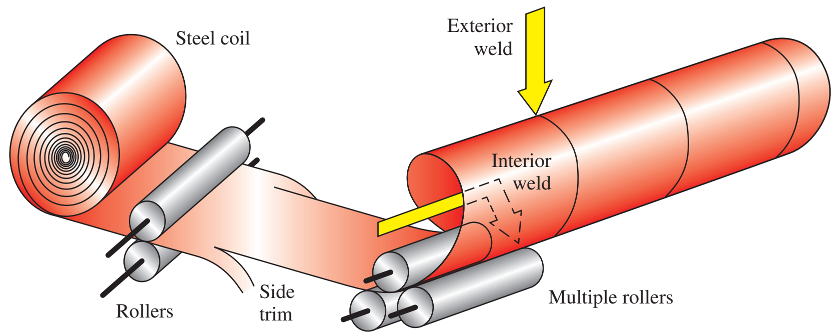
Roll forming	The steel strips are then fed into the flattening machine before they are rolled into the forming machine, in which they are passed through a series of grooved rollers and pressed by high precision moulds into round pipe sections with pre-determined sizes, with the longitudinal edges of the strips contoured for welding. As it passes by, the rollers cause the longitudinal edges of the strips to curl together. This forms an unwelded steel pipe.
Welding and deburring	The steel pipes are then fed into a high frequency welder which heats the longitudinal edges of the strips to very high temperature. The longitudinal edges of the strips are sealed together by welding. After the welding process, the pipes still need to be deburred to remove excess weld beads on both the inner and the outer surfaces of the steel pipe.
Mid-frequency heat processing	The hot affect zone of the steel pipes are subject to heat treatment, which will increase the mechanical strength and hardness of the steel pipes. Therefore a heat processing is given to the steel pipes to remove the stresses that may occur due to welding and formation processes. The heated pipes will then be air and water cooled.
Sawing	The steel pipes will be tested by an eddy current testing equipment which makes use of the principle of electromagnetic induction to detect invisible defects before they are cut into their designated lengths according to customers' specifications. After cutting, the steel pipes will have plain ends.
Straightening	The steel pipes are then transferred to a straightening machine where they are straightened by various adjustable rollers.
Trimming	Subject to customers' specifications, the straightened steel pipes may be bevelled at one or both ends in order to produce a wedged edge for better contact surface for connection.

Test of dimensional properties	The diameter, length, wall thickness, straightness are checked as part of our manufacturing procedure. Such dimensions are subject to the tolerance prescribed in the appropriate international standards or specifications.
Hydrostatic testing	The steel pipes are also tested by a hydrostatic testing machine for mechanical strength and leakage which involves filling the vessel or pipe system with liquid, usually water, which may be dyed to aid in visual leak detection, and pressurisation of the vessel to the specified test pressure. The finished products are also inspected by the quality control staff on interior quality and mechanical performance by using testing equipment.
Anti-corrosive treatment and coating	We provide standardised coating services for our ERW steel pipe products primarily include zinc coating and spray coating.
Labelling and packaging	The final products are labelled with their specifications and the logo of our Group, and are then packaged in bundles before being transferred into storage for delivery to customers.

(b) SSAW steel pipes

SSAW steel pipes are made of steel coils by automatic submerged arc weld under normal atmospheric temperature. SSAW steel pipe is formed by twisting strips of steel coil into a spiral shape, then welding where the edges join one another to form a seam. An automatic machine unrolls the steel coils, prepares the edges for welding, and spirally forms the strip into a tubular shape. SAW involves formation of an arc between a continuously-fed bare wire electrode and the steel. During the Track Record Period, all of our SSAW steel pipe products were sold to domestic customers.

For illustration purposes, the major steps of the manufacturing of our SSAW steel pipes are outlined below:



Uncoiling	Steel coils are purchased from suppliers in coiled form. They are uncoiled first for further processing. They are first inspected by the quality control staff to ensure that they meet the quality requirements of the specific order. Upon satisfaction of the quality requirements, the coils are then placed on a feed ramp. Each coil is positioned in the centre of the mill and fed into the uncoiling machine.
Flattening	The uncoiled steel coils are then flattened by the flattening in order to fulfil the required thickness under various international standards.
Plate edge milling	The edge of the steel strip is treated with a disc cutter or edge milling machine to ensure that the width of the steel strip and the edge quality of the steel plate meet the requirements.
Welding	The submerged arc automatic welding method is used for welding. The inner and outer wall of the steel plates are welded.
X-ray and internal welding inspection	X-ray inspection machine is used to detect the inside of the weld and observe whether there are any abnormal defects such as pores, slag inclusions, incomplete penetration or cracks.

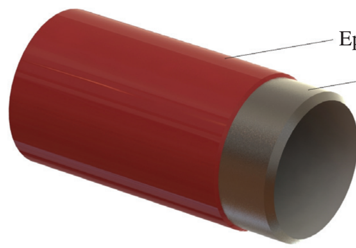
Hydrostatic testing	The steel pipes are also tested by a hydrostatic testing machine for mechanical strength and leakage which involves filling the vessel or pipe system with a liquid, usually water, which may be dyed to aid in visual leakage detection, and pressurisation of the vessel to the specified test pressure. The finished products are also inspected by the quality control staff on interior quality and mechanical performance by using testing equipment.
Anti-corrosive treatment and coating	While we provide anti-corrosive treatment and coating services for our SSAW steel pipe products, for certain anti-corrosive treatment and coating work such as three layers polyethylene external coating ("**3PE**") and thermal insulation treatment, we subcontract the works to subcontractors. For details, see "— anti-corrosive treatment and coating of our SSAW steel pipe products" below.
Labelling and packaging	The final products are labelled with their specifications and the logo of our Group, and are then packaged in bundles before being transferred into storage for delivery to customers.

Anti-corrosive treatment and coating of our SSAW steel pipe products

As our SSAW steep pipe products are generally used as main pipes in long distance pipeline system to conveyance of water and natural gas, they usually need to be buried underground. When our SSAW steel pipe products are in contact with soil and water, we need to consider its external anti-corrosive performance to ensure a durable lifespan of the pipeline. In this connection, we may be required by our customers to apply extra anti-corrosive treatment or coating such as 3PE coating on our products. A 3PE coating consists of a high performance fusion bonded epoxy layer, an adhesive layer and an outer layer of high density polyethylene which provides additional resistance to abrasion and wear.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our Group subcontracted extra anti-corrosive treatment or coating works such as 3PE coating works to subcontractors, who were Independent Third Parties. For the three years ended 31 December 2018, our total subcontracting fee amounted to approximately RMB6.5 million, RMB7.7 million, RMB9.4 million and nil, respectively, representing approximately 1.7%, 1.1%, 1.0% and nil of our cost of sales, respectively for the corresponding periods. There were no long term agreements entered into between our Group and our subcontractors with respect to the provision 3PE coating works. Instead, we placed purchase order for 3PE coating works with our subcontractors at a service fee agreed between the parties on a case-by-case basis. Following the purchase of a 3PE coating machine, which came into operation in April 2019, we are capable to provide 3PE coating services to our customers.

(c) Customised steel pipes

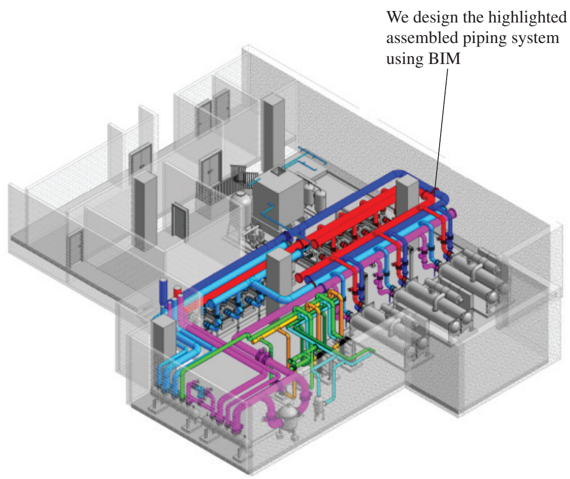


Our customised steel pipe products are all processed on ERW steel pipes manufactured by us under customers' specific requirements. They refer to steel pipe products that are manufactured outside the scope of various standards, and based on customers' specifications and requirements. These customised steel pipe products are manufactured under specific requirements to satisfy customers' demand. The areas of customisation generally include grooving or threading or thickened coating with different functions.

We provide various coatings depending on different applications and customers' specifications and requirements. The requirements for customised coatings vary with the type of construction, the aggressiveness of the environment, and the system operating conditions of our customers' construction sites. Our coating services include single or double layer(s) fusion bond epoxy coating, two or three layers polyethylene or polypropylene coating, external bitumen coating and internal liquid epoxy coating. The extra coating can prevent the steel pipes from corrosion and rust, and as such, the coating can improve the durability of the pipes. Different coating and lining will be used for steel pipes for different applications.

During the Track Record Period, apart from direct sales, our Group also sold customised steel pipe products to our distributors because under the distributorship model, our distributors will promote our customised products (i.e. the area of customisations that we can offer and the types and layers of extra coatings that we can offer) to their customers. The customers of our distributors will then place orders with our distributors. On the other hand, our distributors will also communicate with our Group regarding the specifications and applications of the customised steel pipe products that is required by their customers so that we can manufacture the required customised products in accordance with the needs of the customers of our distributors.

(iii) Design and supply of assembled piping system



In cases where enquiries are related to assembled piping system which involve the design and supply of assembled piping system to satisfy customised requirements and typical application scenarios of customers, our customers will provide us with the desired layout plan and/or specifications and requirements. On the other hand, depending on the complexity of the assembled piping system, our sales and marketing team and technical personnel will also engage in the design process with our customers. Our sales and marketing team and technical personnel will then work with our customers to come up with our quotation and, if necessary, engage in negotiations with our potential customers to work out the product specifications that would be needed for implementing their design plans. Our workflow generally involves (i) designing the piping system; (ii) manufacturing customised piping products with add-on treatment in accordance with customers' needs; and (iii) on-site installation of the piping system. The design process makes use of BIM which involves the generation and management of digital representations of physical and functional characteristics of customers' designated sites. According to the Frost & Sullivan Report, as the customised piping system is pre-designed and the whole manufacturing process is controlled and inspected by workers, the quality of the piping system can be guaranteed. Since we do not have the specifications, our technical personnel needs to use software to design the products. Once we have prepared the quotation, our sales team will send it to the potential customer who will then confirm the order with us either via email acknowledgement and/or through the issuance of the customer's purchase order. Our production team will then plan and schedule for the manufacturing of the customised steel pipe products.

Quality Control

Apart from implementing quality control measures throughout our manufacturing process, we also implement quality control on our finished products. For details, see "Quality control on our finished products" below.

Delivery stage

Transportation and logistics

Our products are delivered to customers by land transport or marine transport. For products delivered by land transport or marine transport within the PRC, our Group delivers the products by engaging third-party logistic service providers who were Independent Third Parties to deliver the products from our production plant to the destinations specified by the customers. Depending on the relevant contract terms, the delivery costs will be either borne by us or our customers. The risks of the products remain with the logistic service providers until the products are duly delivered to our customers' designated destinations. On some occasions, our customers will come to pick up our steel pipe products or pipe nipple products from our production plant. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total transportation costs were approximately RMB14.3 million, RMB38.0 million, RMB44.1 million and RMB15.5 million, respectively. For our export sales to overseas customers, our products are delivered to the place or carrier designated by our customers on either FOB (free-on-board), CFR (cost and freight) or CIF (cost, insurance and freight).

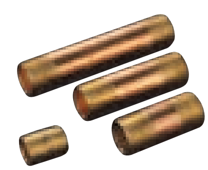
Others

Other revenue is primarily attributable to the sales of raw materials. Pursuant to our master procurement agreements with major suppliers, we are generally required to purchase a minimum amount of raw materials such as steel coils each month. We usually purchase raw materials to maintain at least a level sufficient for our production. As such, to minimise our risk of inventory accumulation, we may sell our unused raw materials to our customers from time to time if the then prevailing market price of raw materials are favourable. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from the sale of unused raw material amounted to approximately RMB5.3 million, RMB9.4 million, RMB50.6 million and RMB23.0 million, respectively, representing approximately 1.2%, 1.0%, 4.2% and 5.6% of our total revenue, respectively for the corresponding periods and the profit generated from the sales of raw materials, amounted to approximately RMB44,000, RMB65,000, RMB292,000 and RMB200,000 for the three years ended 31 December 2018 and the five months ended 31 May 2019. For details, see "Suppliers — salient terms of our master procurement agreements" below.

OUR PRODUCTS

Standard prefabricated pipe nipple products

Our standard prefabricated pipe nipple products are classified in terms of outside diameter, length, materials used and international standard. The following are our major types of steel standard prefabricated pipe nipple products:

Product type	International standard	Price range *(RMB per ton)*	Photo
Standard prefabricated steel pipe nipples	ASTM A733, BS EN 10241	11,000–20,000	
Standard prefabricated brass pipe nipples	ASTM B687	60,000–90,000	

Steel pipe products

Our steel pipe products are manufactured by two different methods, namely ERW method and SAW method. With respect to the latter, the SAW method can be further divided into SSAW method. Our ERW steel pipes and SSAW steel pipes are made from steel coils. ERW method is limited by the coil width, and is suitable for the manufacturing of steel pipes that are in general thinner in terms of wall thickness and shorter in diameter. Due to higher pressure tolerance of SSAW steel pipes, they can be used as main and long distance pipelines, whereas ERW steel pipes are used as sub-pipelines in a pipeline system.

ERW steel pipe products

Our ERW steel pipes products are widely used as sub-pipeline and used in smaller scale projects, such as fire sprinkler system, water supplies and HVAC system.

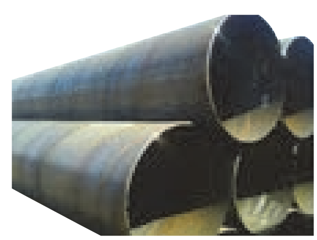
The following are our major types of ERW steel pipes:

Product type	International standard	Price range *(RMB per ton)*	Photo
ERW steel pipes	GB/T3091, ASTM A53, EN 10255	4,100–7,200	

SSAW steel pipe products

All of our SSAW steel pipes are sold to the domestic markets and are used as main and long distance pipelines and suitable to conveyance of water and gas due to their tolerance to high temperature and pressure and their impact strength.

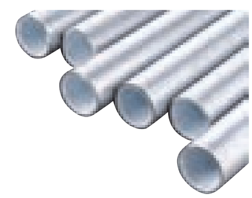
The followings are our major types of SSAW steel pipes:

Product type	International standard	Price range *(RMB per ton)*	Photo
SSAW steel pipe	GB/T9711 SY/T5037	3,600–7,600	

Customised steel pipes:

Our customised steel pipe products are all processed on the ERW steel pipes manufactured by us under specific requirements and areas of customisation mainly include grooving, threading or thickened coating as required by our customers.

The following are our major types of customised steel pipes:

Product type	Price range *(RMB per ton)*	Photo
Epoxy powder painted ERW steel pipes	4,700–8,500	
Plastic lining ERW steel pipes	5,700–9,400	

PRODUCTION FACILITIES

PRC

During the Track Record Period and up to the Latest Practicable Date, we operated two production plants in Meiguizhen, Pingyin County, Jinan, Shandong Province, the PRC and Mei Gui Lu, Pingyin Xian, Jinan, Shandong Province, the PRC, with a total area of approximately 232,655 sq.m. and 80,334 sq.m., respectively. For further details, see "Properties" below. As advised by our PRC Legal Adviser, we have obtained all the relevant licences and permits that are necessary for our business operations in the PRC in all material respects as at the Latest Practicable Date.

Vietnam

In December 2018, we leased a production plant situated at Lot II-15, Road No. 10, Ho Nai Industrial Zone, Ho Nai 3 Commune, Trang Bom District, Dong Nai Province, Vietnam, with an area of approximately 3,842 sq.m. for a term of three years for manufacturing of standard prefabricated pipe nipple products for overseas customers. As at the Latest Practicable Date, the Vietnam production is in operation. As advised by our Vietnam Legal Adviser, we have obtained all the relevant licences and permits including Enterprise Registration Certificate and Investment Registration Certificate for our business operations in Vietnam as at the Latest Practicable Date. For details of the expected production capacity of our new Vietnam production plant, see "Our business strategies — Expand our production to Vietnam" above.

Production capacity

Standard prefabricated pipe nipples

As at the Latest Practicable Date, we had production facilities in Jinan, the PRC and Dong Nai Province, Vietnam. Our production facilities in Vietnam commenced operation in January 2019 and we had relocated some of our standard prefabricated pipe nipples production machinery from our PRC production facilities to our Vietnam production facilities. Set forth below is the production capacity for our standard prefabricated pipe nipples production machinery in both our PRC and Vietnam production facilities, respectively:

(i) PRC production facilities:

	For the years ended 31 December									For the five months ended 31 May					
	2016 *(Note 1)*			2017			2018			2018			2019 *(Note 2)*		
	Production capacity *(hours)*	Actual production hours *(hours)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*	Production capacity *(hours)*	Actual production hours *(hours)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*	Production capacity *(hours)*	Actual production hours *(hours)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*	Production capacity *(hours)*	Actual production hours *(hours)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*	Production capacity *(hours)*	Actual production hours *(hours)* *(Note 3)*	Utilisation rate *(%)* *(Note 4)*
Standard prefabricated pipe nipples (Notes 5 & 6)															
— Material feeding and cutting	41,436	31,347	75.7	242,161	192,635	79.5	242,161	213,321	88.1	97,332	92,375	94.9	93,066	56,973	61.2
— Chamfering	52,371	32,023	61.2	307,310	164,591	53.6	307,310	181,952	59.2	123,520	79,930	64.7	113,566	46,674	41.1
— Processing	260,843	225,155	86.3	1,529,888	1,408,576	92.1	1,529,888	1,351,049	88.3	614,907	581,650	95.6	558,027	369,792	66.3

Notes:

In calculation our production capacity, we have made certain assumptions and applied certain formulae as explained below.

1. In November 2016, we acquired the (i) manufacturing facilities, supporting electronic equipment and vehicles for the manufacturing of standard prefabricated pipe nipples; (ii) raw materials, semi-finished products and finished products of standard prefabricated pipe nipples; and (iii) the factory buildings from Meide. Therefore, the production capacity for the year ended 31 December 2016 is calculated based on daily working hours and daily machine hours, number of shifts per day and the total number of working days between November and December. Between November and December 2016, the production capacity of (i) material feeding and cutting; (ii) chamfering; and (iii) processing were approximately 41,436 hours, 52,371 hours and 260,843 hours, respectively, and the actual production hours were approximately 31,347 hours, 32,023 hours and 225,155 hours, respectively. For the same period, the utilisation rates of (i) material feeding and cutting; (ii) chamfering; and (iii) processing were approximately 75.7%, 61.2% and 86.3% respectively.

2. In January 2019, our production facilities in Vietnam commenced production of standard prefabricated pipe nipple products and we had relocated some of our standard prefabricated pipe nipples production machinery from our PRC production facilities to our Vietnam production facilities.

3. The actual production hours varies for different types of standard prefabricated products manufactured by our Group due to a number of factors, including but not limited to, the specifications, the complexity of the production process, raw material used, etc. As such, the actual production hours have no correlation to the sales volume of our Group. For details of the sales volume of our standard prefabricated pipe nipple products, please refer to the section headed "Financial information — Description of Selected Items in Consolidated Statements of Profit or Loss — Revenue by Product".

4. The major production steps of the manufacturing of our standard prefabricated pipe nipples include material feeding and cutting, chamfering and processing (which mainly includes threading). The production capacity of each major production steps represents the maximum possible working hours of each major production steps for the relevant period. The production capacity is calculated based on the assumptions that the number of machinery in each workshops, daily working hours, daily machine hours, number of shifts per day and the total number of working days of each year being consistently applied throughout the Track Record Period. Utilisation rate of standard prefabricated pipe nipples is calculated by dividing the actual production hours by the production capacity (in terms of machinery hours) for the relevant period.

5. During the Track Record Period, our Group had four workshops for manufacturing of the standard prefabricated pipe nipples at our PRC production facilities. Three out of the four workshops were deployed with machinery for (i) material feeding and cutting; (ii) chamfering; and (iii) processing, while the remaining one workshop was solely deployed with machinery for (i) chamfering and (ii) processing.

6. The production capacity of standard prefabricated pipe nipple products is based on (i) two shifts per day and ten hours per shift; and (ii) the actual working days of each production lines of our Group in for each of the three years ended 31 December 2018 and the five months ended 31 May 2019 was 53 days, 311 days, 311 days and 125 days, respectively.

(ii) Vietnam production facilities:

	For the years ended 31 December									For the five months ended 31 May		
	2016 *(Note 1)*			**2017** *(Note 1)*			**2018** *(Note 1)*			**2019**		
	Production capacity *(hours)*	**Actual production hours** *(hours)* *(Note 2)*	**Utilisation rate** *(%)* *(Note 3)*	**Production capacity** *(hours)*	**Actual production hours** *(hours)* *(Note 2)*	**Utilisation rate** *(%)* *(Note 3)*	**Production capacity** *(hours)*	**Actual production hours** *(hours)* *(Note 2)*	**Utilisation rate** *(%)* *(Note 3)*	**Production capacity** *(hours)*	**Actual production hours** *(hours)* *(Note 2)*	**Utilisation rate** *(%)* *(Note 3)*
Standard prefabricated pipe nipples (Notes 4 & 5)												
— Material feeding and cutting	—	—	—	—	—	—	—	—	—	4,266	3,882	91.0
— Chamfering	—	—	—	—	—	—	—	—	—	9,954	8,461	85.0
— Processing	—	—	—	—	—	—	—	—	—	56,880	51,192	90.0

Notes:

1. Our production facilities in Vietnam only commenced production in March 2019. We have relocated 3 units, 7 units and 40 units of machinery for material feeding and cutting, chamfering and processing from our PRC production facilities to our production facility in Vietnam.

2. The actual production hours varies for different types of standard prefabricated products manufactured by our Group due to a number of factors, including but not limited to, the specifications, the complexity of the production process, raw material used, etc. As such, the actual production hours have no correlation to the sales volume of our Group. For details of the sales volume of our standard prefabricated pipe nipple products, please refer to the section headed "Financial information — Description of Selected Items in Consolidated Statements of Profit or Loss — Revenue by Product".

3. The major production steps of the manufacturing of our standard prefabricated pipe nipples include material feeding and cutting, chamfering and processing (which mainly includes threading). The production capacity of each major production steps represents the maximum possible working hours of each major production steps for the relevant period. The production capacity is calculated based on the assumptions that the number of machinery in each workshops, daily working hours, daily machine hours, number of shifts per day and the total number of working days of each year being

consistently applied throughout the Track Record Period. Utilisation rate of standard prefabricated pipe nipples is calculated by dividing the actual production hours by the production capacity (in terms of machinery hours) for the relevant period.

4. Since the establishment of our Vietnam production facilities, we operated one workshop for manufacturing of the standard prefabricated pipe nipples at our Vietnam production facilities. The workshop was deployed with machineries for (i) material feeding and cutting; (ii) chamfering; and (iii) processing.

5. The production capacity of standard prefabricated pipe nipple products is based on (i) three shifts per day and six hours per shift; and (ii) the actual working days of each production lines of our Group in for each of the three years ended 31 December 2018 and the five months ended 31 May 2019 was nil day, nil days, nil days and 79 days, respectively.

Steel pipe products

	For the years ended 31 December									For the five months ended 31 May					
	2016			2017			2018			2018			2019		
	Production capacity *(tons)*	Actual production volume *(tons)*	Utilisation rate *(%)* *(Note 1)*	Production capacity *(tons)*	Actual production volume *(tons)*	Utilisation rate *(%)* *(Note 1)*	Production capacity *(tons)*	Actual production volume *(tons)*	Utilisation rate *(%)* *(Note 1)*	Production capacity *(tons)*	Actual production volume *(tons)*	Utilisation rate *(%)* *(Note 1)*	Production capacity *(tons)*	Actual production volume *(tons)*	Utilisation rate *(%)* *(Note 1)*
Our production facilities															
ERW steel pipes (Note 2)															
— Welding *(Note 3)*	130,558	59,296	45.4	130,558	106,850	81.8	130,558	124,389	95.3	54,096	48,500	89.7	54,096	57,067	105.5
— Anti-corrosive treatment (zinc ingot) *(Note 4)*	57,015	36,983	64.9	57,015	63,634	111.6	69,096	66,862	96.8	23,624	27,856	117.9	35,637	29,319	82.3
— Coating *(Note 5)*	31,997	14,597	45.6	31,997	26,087	81.5	31,997	32,250	100.8	13,258	11,820	89.2	13,258	16,390	123.6
SSAW steel pipes (Note 6)	70,280	60,904	86.7	70,280	59,798	85.1	70,280	59,183	84.2	35,000	22,559	64.5	35,000	21,853	62.4

Notes:

In calculation our production capacity, we have made certain assumptions and applied certain formulae as explained below.

1. Utilisation rate is calculated by dividing the actual production volume by the production capacity for the relevant period.

2. The major production steps of the manufacturing of our ERW steel pipes and customised steel pipes include welding, anti-corrosive treatment and coating. The production capacity of each major production steps represents the designated possible production volume of products that could be manufactured for the relevant period. The production capacity of each production steps is calculated based on the assumptions that the average production speed in terms of meter per minute, average weight of each meter in terms of kilogram per meter, number of shifts per each working day, number of days required each month to calibrate and adjust the production lines for the manufacturing of different models of ERW steel pipes or customised steel pipes, the number of days needed for repairs and maintenance each month and the number of working days each year, being consistently applied throughout the Track Record Period.

3. For welding, we operated five, five, five and five production lines for welding during the Track Record Period.

4. For anti-corrosive treatment, we operated one, one, two and two production lines for anti-corrosive treatment during the Track Record Period. The decrease in utilisation rate from approximately 111.6% for the year ended 31 December 2017 to approximately 98.2% for the five months ended 31 May 2019 was due to the addition of a production line in 2018 which increased our overall production capacity.

5. For coating, we operated three, three, three and three production lines for coating treatment during the Track Record Period. The high utilisation rate was due to increase in sales volume of certain types of ERW steel pipes and customised steel pipes which require additional coating services thereby leading to a higher utilisation rate of our coating production lines for the five months ended 31 May 2019.

6. We subcontracted the anti-corrosive treatment and coating works to our subcontractors during the Track Record Period, major production step of our SSAW steel pipes refer to welding. Therefore the total production capacity is calculated based on the production capacity of the bottleneck of welding. During the Track Record Period, we had four, four, four and four production lines for the manufacturing of SSAW steel pipes. The production capacity of SSAW steel pipe products is calculated based on (i) two shifts per day and eight hours per shift; (ii) the actual working days of each production lines of our Group in 2018, being 251 days, 251 days, 251 days and 251 days, respectively during the Track Record Period and 125 days, 125 days, 125 days and 125 days for the five months ended 31 May 2019; and (iii) total daily production capacity of each production lines being 128, 68, 44 and 40 tons during the Track Record Period.

Machinery and equipment

Our production plant is equipped with a variety of machinery and equipment for the manufacturing of standard prefabricated pipe nipple products and steel pipe products. We adopt a straight-line depreciation policy on our machinery and equipment believe is in line with industry norm. The table below sets out a summary of the principal machinery and equipment in operation by our Group for manufacturing as at 31 May 2019:

Name of the machinery and equipment	Quantity	Principal functions	Average age (years) *(approximately)* *(Note 1)*	Average remaining useful life (years) *(approximately)* *(Note 2)*	Acquisition cost of machinery *(approximately)* *(Note 3)*	Acquisition cost of production line *(approximately)* *(Note 4)*
Standard prefabricated pipe nipples						
— Material feeding and cutting machinery	47	To cut pre-processed pipes or ERW steel pipes into required length	2.5	12.5	RMB500– RMB123,000	N/A
— Chamfer machinery	41	To cut away a right-angled edge of pre-processed pipes or ERW steel pipes to make a symmetrical sloping edge	5.2	14.7	RMB2,800– RMB59,000	N/A
— Processing machinery	341	Mainly includes threading machinery which creates threads at the end of pre-processed pipes or ERW steel pipes	5.2	9.8	RMB90– RMB393,000	N/A
ERW steel pipes						
— Welding production lines *(Note 5)*	5	High frequency welding machinery	5.5	9.6	RMB960,000– RMB1.8 million	RMB6.5 million– RMB12.5 million
— Anti-corrosive treatment (Zinc ingot) production lines	2	Apply anti-corrosive paints (zinc ingots) on surface of steel pipes	2.5	12.5	RMB3.8 million– RMB4.7 million	RMB6.8 million– RMB9.0 million
— Coating production lines *(Note 5)*	3	Apply coatings on surface of steel pipes	4.7	10.3	RMB138,000– RMB754,000	RMB2.5 million– RMB3.3 million
SSAW steel pipes						
SSAW steel pipes production lines	4	To manufacture SSAW steel pipes of different diameters and width	16.2	0	RMB1.0 million– RMB2.6 million	RMB5.7 million– RMB17.7 million

Notes:

1. The average age of the machinery and equipment is calculated based on the aggregated age of the machinery divided by the number of units of the machinery and equipment.

2. The remaining useful life of the machinery and equipment is calculated based on the estimated useful life deducted the average age of the machinery and equipment.

3. This refers to the range of acquisition cost of each machinery comprising a production line.

4. This refers to the range of acquisition cost of a production line. However, the manufacturing of standard prefabricated pipe nipple products generally does not involve a series of consecutive steps, and thus is not in a form of production line.

5. We acquired two additional ERW steel pipe production lines for welding and coating at an acquisition cost of approximately RMB10.4 million and RMB1.4 million, respectively. Both of the production lines were located at our PRC production facility and commenced operation in June 2019.

Repair and maintenance

We implement a series of repair and maintenance procedures for our machinery and equipment. Our production team conducts routine checks on our machinery and equipment. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our costs incurred for the repair and maintenance of our machinery and equipment and production facilities was approximately RMB0.8 million, RMB1.4 million, RMB2.6 million and RMB0.8 million, respectively. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, our SSAW production line had experienced 16 times, 25 times, 29 times and six times breakdown primarily due to equipment and parts malfunctions and the relevant repair and maintenance cost amounted to approximately RMB127,000, RMB154,000, RMB249,000 and RMB135,000, respectively. Save for the above, during the Track Record Period and up to the Latest Practicable Date, we did not experience any significant interruptions in our business operations or any prolonged suspension of manufacturing operations arising from failure or breakdowns of machinery or equipment.

SALES AND MARKETING

Over the years, we have built up a broad and geographically diversified customer base and we had more than 320 customers as at 31 May 2019, most of which are located in the PRC and the rest are spread across 35 overseas countries around the globe. The following table sets forth the breakdown of our revenue derived by geographical locations of our customers during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic market								
The PRC	364,907	80.7	576,818	61.5	655,546	54.0	230,919	56.1
Overseas markets								
The United States	3,932	0.9	138,559	14.8	247,510	20.4	71,246	17.3
Other countries in America (excluding the United States) *(Note 1)*	13,162	2.9	68,974	7.3	101,215	8.3	34,335	8.5
Other countries in Asia (excluding the PRC)	61,537	13.6	121,831	13.0	169,760	14.0	53,777	13.1
Europe	1,401	0.3	17,836	1.9	13,803	1.1	5,907	1.3
Others *(Note 2)*	7,344	1.6	14,151	1.5	27,005	2.2	15,230	3.7
Subtotal	87,376	19.3	361,351	38.5	559,293	46.0	180,495	43.9
Total	452,283	100.0	938,169	100.0	1,214,839	100.0	411,414	100.0

Notes:

(1) Other countries in Americas (excluding the United States) comprise the continents of North and South America, excluding the United States.

(2) Others mainly include Oceania and Africa.

During the Track Record Period, all of our SSAW steel pipe products, a significant portion of our ERW steel pipe products and a small portion of standard prefabricated pipe nipple products were sold in domestic market. On the other hand, we sold most of our standard prefabricated pipe nipple products and customised steel pipe products and a small portion of ERW steel pipe products to overseas markets. During the Track Record Period, our sales to the domestic market amounted to approximately RMB364.9 million, RMB576.8 million, RMB655.5 million and RMB230.9 million, respectively, representing approximately 80.7%, 61.5%, 54.0% and 56.1% of our total revenue, respectively, for the corresponding periods, whereas our sales to overseas markets amounted to approximately RMB87.4 million, RMB361.4 million, RMB559.3 million and RMB180.5 million, respectively, representing approximately 19.3%, 38.5%, 46.0% and 43.9% of our total revenue, respectively, for the corresponding periods.

As at 31 May 2019, our sales and marketing team consisted of 70 full time staff and is divided into groups which are responsible for different markets. In view of the distinctive market features and the composition of our customer base, our domestic and overseas sales team are further divided into sub-teams whereby each sub-team focuses on few major customers or regions. By establishing sales network across the globe, our Directors believe that we could (i) diversify our sources of income without over-reliance on the market in any geographical location; (ii) customise our sales and marketing strategies in respect of different customer types in different geographical location; and (iii) strengthen our presence in the market which allows our products to penetrate the market more quickly and effectively.

In order to extend our market coverage, we adopt different sales channels according to our marketing strategies and resources. Our sales channels consisted of direct sales, distributorship and wholesaling. The following table sets forth the breakdown of our revenue by sales channels during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Domestic market								
Direct sales	265,728	58.8	378,093	40.3	499,785	41.1	181,622	44.1
Distributorship	70,330	15.5	154,168	16.4	140,268	11.6	36,694	8.9
Wholesaling	28,849	6.4	44,557	4.8	15,493	1.3	12,603	3.1
Sub-total	364,907	80.7	576,818	61.5	655,546	54.0	230,919	56.1
Overseas markets								
Direct sales	84,892	18.8	276,878	29.5	343,579	28.3	129,718	31.5
Wholesaling	2,484	0.5	84,473	9.0	215,714	17.7	50,777	12.4
Sub-total	87,376	19.3	361,351	38.5	559,293	46.0	180,495	43.9
Total	452,283	100.0	938,169	100.0	1,214,839	100.0	411,414	100.0

The table below shows the typical commercial features of our sales channels:

	Direct sales	Distributorship	Wholesaling
Long-term agreements	Generally by purchase orders or sales contracts or framework agreements	Distributorship agreements generally have a term of one-year and are re-negotiated annually based on our operating needs	Generally by purchase orders or sales contracts
Minimum purchase amount	Nil	Our distributorship agreements will generally set out minimum purchase amount. If our distributors fail to satisfy the minimum purchase amount, we may not renew the distributorship agreements with our distributors	Nil
Geographical exclusivity	Nil	Some of our distributorship agreements will set out the target cities of the distributors	Nil
Product exclusivity	Nil	Certain distributors are only allowed to sell our products	Nil
Sales rebate	Nil	Sales rebate may be provided as an incentive	Sales rebate may be provided as an incentive
Recognition in our financial statements	Direct sales customers are accounted for as our customers	Distributors are accounted for as our customers	Wholesalers are accounted for as our customers
Sell and buy-back	Nil	Nil	Nil
Product return	We only allow compensation or product replacement due to quality issue	We only allow compensation or product replacement due to quality issue	We only allow compensation or product replacement due to quality issue
End-users of our products	Yes	No	No

Direct sales

We deal directly with end customers, such as gas and HVAC companies and water supply companies, infrastructure and construction companies. Our sales and marketing team play an important part in planning, development and implementation of the planned marketing strategies of our Group. They are primarily responsible for, including but not limited to, frequently communicate with our customers and understand their feedback on the quality, preferences, improvements and market demand of our products. During the Track Record Period, we also sold SSAW steel pipe products to Meide Group. Prior to November 2016, we also sold ERW steel pipe products to Meide Group. For further details, see "Our transactions with Meide Group" below.

The following table sets forth the breakdown of our revenue of direct sales by application scenarios during the Track Record Period:

	For the year ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Gas supplies	145,058	319,589	393,112	150,709
HVAC supplies	170,323	205,516	228,165	55,684
Water supplies (include fire protection)	25,058	111,074	132,034	69,359
Others *(Note)*	10,181	18,792	90,053	35,588
Total	350,620	654,971	843,364	311,340

Note:

Others include interior piping system and electrical power system

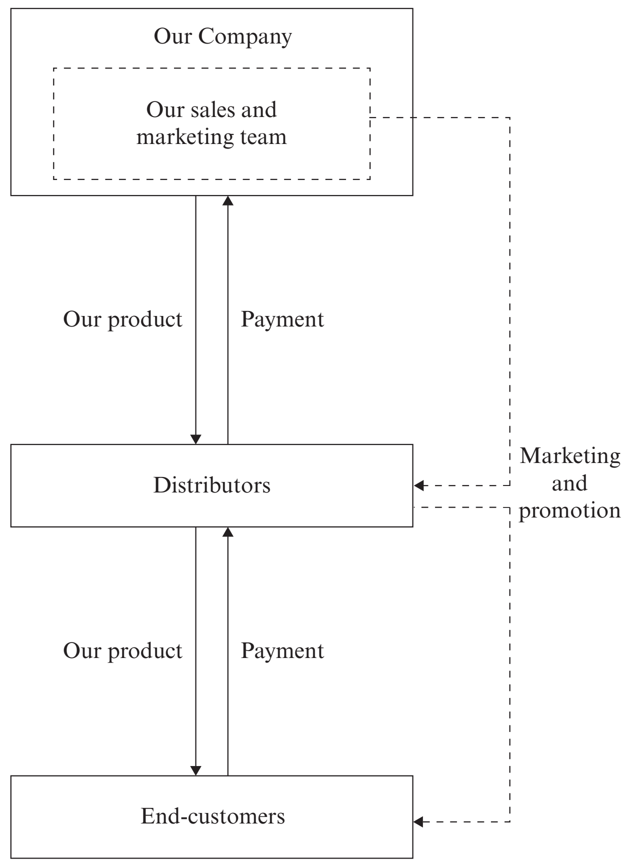
Distributorship

Part of our domestic sales for standard prefabricated pipe nipples, ERW steel pipes and customised steel pipes were conducted through distributorship. We are able to sell customised steel pipe products to our distributors because under our distributorship model, our distributors will promote our Group's customised products. The customers of the distributors will then place orders to the distributors. On the other hand, our distributors will also communicate to our Group the specifications of the steel pipe products that are required by their customers and as such we can manufacture the required products according to the needs of the distributors. We entered into various legally-binding agreements with our distributors. We have a seller-buyer relationship with our distributors and our revenue is recognised when the control of our products has been transferred to our distributors. The operations of our distributors are primarily governed by their respective agreements. We may enter into exclusive distributorship agreements with distributors who have proven track record pursuant to which, our distributors are restricted to serve customers within a designated area. Generally, the designated area of our distributors will include the entire city in which such distributor is located. Under a typical distributorship arrangement, our Group appoints distributors to promote sales and obtain orders for our Group's products in the specific regions or cities. Our Directors believe that it is important to maintain a core group of distributors in the PRC and adopting a distributorship model is a common practice among our industry peers pursuant to the Frost & Sullivan Report. Our Directors are of the view that we can benefit from our established distribution channel and resources to save costs that we otherwise would have incurred to build up such sales network, which in turn, increase the effectiveness of penetration of our products to different segments and allow us to effectively launch new products to market in a shorter period of time. To manage our distribution network, our sales and marking team work closely to communicate with our distributors and monitor the performance of our distributors and understand their inventory level. We evaluate their performance based primarily on the following factors:

- maintenance of creditworthiness;
- development and expansion of distribution network; and
- monthly purchase amounts from our Group.

While we maintain regular communication with our distributors to evaluate their performance and gather feedback and understand their inventory level, we do not have direct control over our distributors. Instead, we primarily manage our distributors according to the terms of the respective distributorship agreements. Under the agreements, our distributors are not obliged to provide us with any information regarding their sales, inventory levels and customers' demands of our products, therefore we do not have access to the information in relation to their level of inventory. In considering the renewal of distributorship agreements, our Group will consider various factors, including but not limited to, the ability of the distributor to promote our products, whether the distributor can satisfy the minimum purchase orders and our business relationships. In addition, under the distributorship agreements, the distributors are not allowed to return any purchased products except the products are substandard. In view of the above measures and our Directors believe that the risk of our customers' inventory accumulation is low. We are not aware of any material accumulation of stock by our distributors during the Track Record Period and up to the Latest Practicable Date.

The diagram below illustrates our sales and distribution mechanism:



To avoid cannibalisation and enhance effective control, we generally specify designated sales area in which our distributors operate, although we, may on a case-by case basis, allow more than one distributor to distribute our products in the same sales region to create competition and enhance our distributors' performance.

We select our distributors according to certain criteria, including (i) the size of their operations; (ii) sales network; (iii) geographic location; (iv) their market expertise and influence within their local territory; (v) expertise within the standard prefabricated pipe nipple industry and steel pipe manufacturing industry; (vi) creditworthiness; and (vii) delivery capability.

During the Track Record Period, Meide Group was one of our distributors. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our sales through distributorship to Meide Group amounted to approximately RMB50.9 million, RMB127.8 million, RMB75.5 million and RMB12.1 million, respectively, representing 72.2%, 82.8%, 53.8% and 33.0% of our total revenue of sales through distributorship for the corresponding periods. For further details, see "Our transactions with Meide Group" below. Save as disclosed, all of our distributors are Independent Third Parties. In addition, to the best knowledge of our Directors after making all reasonable enquiries, our Directors confirm that during the Track Record Period, (i) none of our distributors or their beneficial owners were previously employees of our Group; and (ii) none of our distributors or their beneficial owners had traded under our name. For the three years ended 31 December 2018 and the five months ended 31 May 2019, sales to our distributors accounted for approximately 15.5%, 16.4%, 11.6% and 8.9% of our total revenue, respectively. As at 31 December 2016, 2017, 2018 and 31 May 2019, we had 13, nine, 18 and 15 distributors, which were all located in the PRC.

The following table sets forth the total number of our distributors, the number of new distributors and the number of distributors whose distributorship agreements were terminated during the year indicated:

	For the years ended 31 December			For the five months ended 31 May
	2016	2017	2018	2019
Distributors as at the beginning of year	7	13	9	18
Addition of new distributors	12	3	12	5
Termination of existing distributors	6	7	3	8
Distributors as at the end of year	13	9	18	15

We actively manage our distribution network and regularly review the performance of each of our distributors. In general, our distribution agreements do not have an automatic renewal clause, we typically renew our distribution relationship with our distributors. During the Track Record Period, the primary reason for termination of distributorship were (i) unsatisfactory performance from our distributors; and (ii) distributors had failed to secure orders from their customers and thus do not require any products from our Group. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, we have entered into distributorship agreements with 12, three, 12 and five distributors, respectively. The cooperation with new distributors is due to (i) our Group's strategy in expanding to different regions in the PRC to further capture our market share; and (ii) ensure stable source of revenue for our Group given the inclusion of minimum purchase order in the distributorship agreements.

During the Track Record Period, our distributors were able to meet approximately 19.7%, 36.8%, 40.0% and 74.9% of the minimum purchase amount on average, respectively. Although a majority of our distributors failed to meet the minimum purchase amount, we still maintained business relationships with some of them. Our Directors consider that this does not reflect negatively on our cooperation with our distributors as the minimum purchase amount was set primarily to make our distributors aware of our expectations on the market demand for our products and to better motivate them. Our distributors' failure in meeting the minimum purchase amount would not automatically lead to termination of our distributorship agreements with them. Instead, we would discuss with the relevant distributors to (i) evaluate on a case-by-case basis as to the appropriate follow-up actions such as initiating sales activities on improving their sales performance; and (ii) may re-negotiate and modify the terms of our distributorship agreements in relation to the minimum purchase amounts to more precisely reflect the actual market situation.

As at the Latest Practicable Date, we had not received any notices of termination from the relevant distributors for any of our distributorship agreements.

Set forth below is a summary of the key terms that are common to most of our distributorship agreements.

Target market	The distributorship agreements impose certain restrictions on the target markets or regions of each distributorship.
Term of distributorship agreement	The distributorship agreements are generally granted for a term of one year.
Renewal of distributorship agreements	Our distributorship agreements do not include automatic renewal clauses. We negotiate with our distributors regarding the renewal of distributorship agreements on a case-by-case basis.
Price	Under the distributorship agreements, we do not set a manufacturer's suggested retail price. The distributors retain flexibility to determine the actual retail price, and the distributorship agreements do not impose a specific price adjustment range from our suggested retail price.
Credit terms	Our distributors are generally required to settle the purchase price 60 days after delivery by the our Group. For details, see "credit policy" below.
Minimum purchase order	The distributorship agreements impose monthly and yearly minimum purchase amount. The yearly minimum purchase amount ranging from 450 tons to 15,000 tons.
Return or exchanges of products	We do not accept return of non-defective unsold products. Return request in mainly resolved through negotiations.
Obligation of our Group	Our Group is required to furnish to the distributors, information and support for promoting our products.
Sales rebate	If our distributors satisfy a specified monthly sales amount, sales rebate as an incentive will be offered to them.
Termination	In general, the distributorship agreements can be terminated by written notice by either parties, or in other cases, by mutual consent of both parties.
Warranty	We do not allow product return. For product quality issue during the warranty, which is generally 12 months, we will arrange product replacement or compensation instead.

Wholesaling

We sold our products to wholesalers who are primarily involve in selling the products procured from our Group to their various kinds of customers. We did not enter into any distributorship agreements with our wholesalers during the Track Record Period. Instead, the terms and conditions are set out in the sales contracts or purchase orders prepared by us.

We do not monitor or restrict the operations or terms of resales (such as resale prices or resale areas) of our products sold to our wholesalers. These wholesalers order our standard prefabricated pipe nipple products or steel pipe products by sales contracts or purchase orders. Orders are normally received 45 to 60 days before the scheduled shipment to allow us to formulate our production plan beforehand. We sell our standard prefabricated pipe nipple products or steel pipe products to these wholesalers at prevailing market prices and wholesalers generally settle payment by means of bank transfer or letter of credit.

All our wholesalers are regarded as end-customers of our Group because (i) these customers generally buy our products on a per-purchase-order-basis and we have established a seller-buyer relationship with them; (ii) the title of our products is passed to these customers after we have delivered the products to their designated locations; (iii) we have no ownership, managerial or contractual control over any of our wholesalers and their customers or their sales, pricing and marketing activities and they all operate independently from our Group; (iv) we have no restrictions on wholesalers regarding their geographical coverage, sales target, minimum purchase requirements or target customers; and (v) our wholesalers are not required to provide us with any information regarding their sales, inventory levels and customers' demands of our products.

Regarding our sales to wholesalers, our revenue recognition depends on the delivery method (i.e. FOB or CFR or CIF). Our Directors confirm that we did not experience any delay in revenue recognition during the Track Record Period and up to the Latest Practicable Date.

Tender

During the Track Record Period, our Group also received tender invitations and request for quotations from oil, gas and HVAC companies and water supply companies. For details of our tender process, see "Business model" above.

The following table summarises our tender success rates during the Track Record period:

	For the years ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
Open tenders				
— Number of projects which we submitted tender	136	199	196	80
— Number of projects awarded	43	63	62	23
— Success rate *(Note)*	31.6%	31.7%	31.6%	28.8%
Invited tenders				
— Number of projects which we submitted tender	11	12	19	66
— Number of projects awarded	4	2	7	9
— Success rate *(Note)*	36.4%	16.7%	36.8%	13.6%
Total (Open and invited tenders)				
— Number of projects which we submitted tender	147	211	215	146
— Number of projects awarded	47	65	69	32
— Success rate *(Note)*	32.0%	30.8%	32.1%	21.9%

Note: Tender success rate is computed based on the number of contracts awarded (regardless of the date of award) out of the number of tenders submitted during the respective financial years.

Our overall tender success rate was approximately 32.0%, 30.8%, 32.1% and 21.9% respectively for the three years ended 31 December 2018 and the five months ended 31 May 2019. Our tender success rate had been relatively stable during the Track Record Period. Our customers' selection criteria, among others, include factors such as qualifications, track record and product quality.

Tariff

During the Track Record Period, we sold our standard prefabricated pipe nipple products and steel pipe products to customers located in overseas. Our sales to overseas countries amounted to approximately RMB87.4 million, RMB361.4 million, RMB559.3 million and RMB180.5 million, respectively, representing 19.3%, 38.5%, 46.0% and 43.9% of our total revenue for the corresponding periods. Due to heightened competition in international trade, foreign countries may from time to time impose tariff on any goods exported by the PRC (including our standard prefabricated pipe nipple products and steel pipe products) so as to protect their own industries. Given our geographical presence in certain countries where anti-dumping and countervailing measures are adopted, we may face countervailing measures that, among other things, impose duties on our exported standard prefabricated pipe nipple products and steel pipe products.

Trade tension between the United States and the PRC

For the five months ended 31 May 2019, our financial performance had been adversely affected by the trade tension between the U.S. and the PRC. Our revenue generated from the U.S. by destination of delivery had decreased from RMB92.6 million for the five months ended 31 May 2018 to RMB71.2 million for the same period in 2019, representing a drop of 23.1%. In order to minimise the impact of the tariff on our Group's product, our Group had taken and will continue to put in place a number of measures, including but not limited to (i) manufacturing products which are subject to U.S. tariff outside the PRC; (ii) cost reduction; (iii) price adjustment; (iv) continue to solidify our market shares in the domestic market; (v) strive to expand our product portfolio; and (vi) maintain disciplined financial strategy. For details of the measures, please see below.

Our standard prefabricated pipe nipple products and steel pipe products that were shipped to the United States during the Track Record Period and up to the Latest Practicable Date were among those products targeted by the United States tariff. Moreover, there has been continuing trade tension between the United States and the PRC. Since 2018, the United States government has imposed additional tariffs on top of the normal tariff rates on certain products imported from the PRC into the United States. The products which are subject to such additional tariffs are set out in the tariff lists published by the USTR, of which the third list of tariff items ("**Section 301 List 3**") containing products including standard prefabricated pipe nipple products and steel pipes, came into effect on 24 September 2018, imposing an additional tariff of 10%. On 9 May, 2019, the USTR announced an increase of the additional tariffs applicable to the products on Section 301 List 3 from 10% to 25%, effective on 10 May 2019. Pursuant to statements from the president of the United States and the USTR, the additional tariffs on Section 301 List 3 were previously expected to increase to 30% effective on 1 October 2019 (although this tariff increase has been deferred in connection with bilateral negotiations between the United States and China). For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue derived from the United States by destinations of delivery amounted to approximately RMB3.9 million, RMB138.6 million, RMB247.5 million and RMB71.2 million, respectively, representing 0.9%, 14.8%, 20.4% and 17.3% of our total revenue, respectively for the corresponding periods. As advised by our U.S.

Trade Law Legal Adviser, all of our products which were imported into the United States are included in the Section 301 List 3. The increase in costs resulting from the additional tariffs are generally payable by our customers as our United States sales are on FOB, CFR or CIF basis.

As a result of the above, our financial performance has been adversely affected by the tariffs on our products. The table below sets forth the average monthly sales and sales volume to the United States before and after the imposition of tariff in September 2018 and the additional tariff in May 2019:

	Before imposition of tariff in September 2018 *(Note 1)*	**After imposition of tariff in September 2018** *(Note 2)*	**After additional of tariff in May 2019** *(Note 3)*
Average monthly sales recognised *(RMB million)*	20.9	16.9	14.7
Average monthly sales volume *(tons)*	1,233.7	986.4	948.8

Notes:

1. The average monthly sales recognised and average monthly sales volume was calculated based on the monthly sales recognised and monthly sales volume from January 2018 to August 2018.

2. The average monthly sales recognised and average monthly sales volume was calculated based on the monthly sales recognised and monthly sales volume from September 2018 to April 2019.

3. The average monthly sales recognised and average monthly sales volume was calculated based on the monthly sales recognised and monthly sales volume from May 2019 to July 2019.

The table below sets forth the sales recognised and sales volume to the United States for the periods indicated:

	1 September 2017 to 30 August 2018	**1 September 2018 to 30 August 2019**
Sales recognised *(RMB million)*	224.7	197.6
Sales volume *(tons)*	13,611	11,941

In view of the continuing trade tension between United States and the PRC, we believe that in order for us to enhance our operational flexibility, lower our operational risks and mitigate the adverse impact to be brought by such trade tension and uncertainties thereof, it is vital for us to continue seek business opportunities with customers in other countries and to develop production support in countries other than the PRC. In this connection, our business strategies in the future include, among others, expand our production to Vietnam. For further details of our business strategies, please see "Our business strategies" above.

In view of the fact that we successfully approached more than 35 new customers (four of them are customers of standard prefabricated pipe nipples, in the U.S., Africa and Oceania, with an aggregated revenue generated from the sales of standard prefabricated pipe nipples of approximately

RMB1.8 million with sales volume of approximately 218.2 tons for the five months ended 31 May 2019), generated revenue of approximately RMB19.4 million (of which approximately RMB1.6 million were generated from customers in the U.S.) for the five months ended 31 May 2019 and received orders of approximately RMB18.3 million (of which approximately RMB6.5 million were orders received from customers in the U.S.) after the Track Record Period and up to 30 September 2019 from them, our Directors are confident that with the increase in scale and our efforts on approaching new customers, such as continuing to participate in various professional exhibitions in different countries and strengthening our regular visit to our targeted overseas markets and customers, our Group will be able to mitigate the adverse impacts from trade tension in the future.

Since the outbreak of the trade tension between the United States and the PRC and up to the Latest Practicable Date, (i) none of our major customers had ceased to purchase from us; and (ii) we had not been notified by any of our major customers of its intention to reduce its purchase volume or to cease to purchase from us due to the potential impact of the U.S. additional tariff on them. In addition, the orders received after the Track Record Period and up to 30 September 2019 from two of the major customers in the U.S., namely Customer D and Matco-Norca LLC was approximately 1,300 tons, representing an increase of approximately 10.0% as compared to the corresponding period in 2018. In light of the above, our Directors consider that the potential impact of the latest development in the United States tariff regulations will not have material adverse effect on both our Group's business operation and financial results as a whole in the long term. To minimise the potential impact of the United States tariff on our business, we are planning to adopt the following strategies:

(i) *manufacture of products subject to United States tariff outside the PRC*: As mentioned in "Our business strategies — Expand our production to Vietnam" above, we plan to explore opportunities to shift part of the manufacturing of our products which may be subject to tariff from the United States to locations outside the PRC which are not subject to tariffs. To achieve this, we intend to set up production facilities in Vietnam;

(ii) *cost reduction*: To maintain our profit margin, we will continue our efforts to maintain or even reduce our operating costs, such as upgrading our production process to lower our cost in the long-term and, as part of our expansion plan mentioned above, setting up production facilities in Vietnam to lower labour cost and other operating expenses in the long run. For instance, with reference to the cost incurred by us for the five months ended 31 May 2019, the average cost of labour in Vietnam is more than 70% lower than that in the PRC while we expect the cost of utility such as electricity would be lower in Vietnam than that in the PRC when our operation in Vietnam is optimised;

(iii) *price adjustment*: To maintain our competitiveness, we may adjust the price of our products in the short-term to the extent that it will not significantly offset our financial performance. In this respect, we may provide discount to our customers from the U.S. to minimise the impact of the tariff. However, our Directors are of the view that we will not face pricing pressure from customers in other countries primarily because we did not adopt uniform pricing for our products in different countries. The price of our products in different countries are determined with reference to various factors including the competitive landscape of the countries and prices of competitors. As at the Latest Practicable Date, our Directors confirm that we did not receive any price reduction request from customers in other countries due to our price adjustment policy in the U.S;

(iv) *continue to solidify our market shares in the domestic market*. Along with expanding our product portfolio in terms of product variety as discussed below, we will continue to expand our pool of customers in the domestic market in order to mitigate any inherent risks arising from the impact of the tariff. During the Track Record Period, our Group had recorded a strong performance in both domestic market and the overseas markets. A substantial amount of revenue was derived from the domestic market. Our revenue generated from the domestic market increased from approximately RMB364.9 million for the year ended 31 December 2016 to approximately RMB576.8 million for the year ended 31 December 2017, and further increased to approximately RMB655.5 million for the year ended 31 December 2018, at a CAGR of approximately 34.0%;

(v) *strive to expand our product portfolio*. Owing to our strong research and development capability, we do not foresee there would be any difficulty for us to expand our product portfolio through development of new products. Following the implementation of our business strategies, depending on our then available resources, our Directors believe that we can develop new products to cater for more customers' demand in other countries. New products include (i) thin wall standard prefabricated pipe nipples; (ii) SSAW steel pipe products with different coating specifications such as 3PE coating which we were able to manufacture by ourselves following the acquisition of a 3PE coating machine which came into operation in April 2019; and (iii) customised steel pipe products with different specifications; and

(vi) *maintain disciplined financial strategy*. We will strive to maintain relatively stable gross margins amid the increase in the US tariff. On top of the above mitigating measures, we also continue to focus on our internal control system to maintain disciplined financial strategy by achieving relatively stable profit margin. For example, we have approval procedures among our sales personnel so that they will focus on sales orders on a selective basis which are profitable and sizeable in nature. Our production department, sales department and finance department will also have meetings from time to time to closely monitor key areas such as our production process and the cost thereof. Based on the above, despite the recent trade tension, we were able to achieve a relatively stable profit margin. For the five months ended 31 May 2019, our Group recorded higher gross margin of approximately 22.8%, as compared to the five months ended 31 May 2018 of approximately 21.7%, which was mainly driven by the increase in the gross margin of steel pipes products for the five months ended 31 May 2019 to approximately 17.0%, as compared to that of the five months ended 31 May 2018, at approximately 12.4%, mainly due to the decrease in average cost of raw materials for the five months ended 31 May 2019 as compared to that of the five months ended 31 May 2018. The gross margin of standard prefabricated pipe nipples, for the five months ended 31 May 2019 was approximately 42.8%, which remained relatively stable as compared to that of the five months ended 31 May 2018, at approximately 40.4%. In addition, after the Track Record Period and up to 30 September 2019, our purchase orders received increased by approximately 15.0% as compared to the same period of 2018.

Having considered the effectiveness of our mitigation measures to date, our Directors believe that we could be least impacted by the trade tension in the future and no indication of material deterioration in our financial performance to our Group as a whole.

For the discussion on the business risks associated with the United States increased tariffs, see "Risk Factors — Our business and results of operations may be adversely affected by the imposition of tariff on exports by the countries in which our overseas customers are located".

To the best knowledge of our Directors after making reasonable enquiries, apart from the United States, our Company and our Directors are not aware of significant change in anti-dumping and controlling measures from other countries that will affect our Group's financial performance.

Further, to the best knowledge of our Directors, under the anti-dumping rules and regulations of the United States, the PRC may be treated as a "non-market economy" and, as a result, may be subject to special rules in determining whether imports of products from the PRC constitute dumping and in determining anti-dumping duty rates.

Marketing

As at 31 May 2019, our sales and marketing team comprised 70 staff members. Our sales and marketing team is responsible for formulating our Group's overall sales strategies, collecting, analysing market data and negotiating and finalising sales terms with our customers. Our sales and marketing team is responsible for exploring new business opportunities in different countries. As part of our marketing activities, our sales and marketing team also actively approaches new customers directly or indirectly in an effort to expand our customer base. In order to create a strong presence in the market, we also participate in industry exhibitions such as the 11th MTM EXPO — Metal World EXPO* (上海國際鋼管工業展覽會) and the 21st China International Gas, Heating Technology and Equipment Exhibition* (中國國際燃氣、供熱技術與設備展覽會).

As part of our sales and marketing strategies, we entered into sales incentive agreements with Independent Third Parties pursuant to which they are required to promote our products and solicit sales for our Group in certain countries or territories. Pursuant to the sales incentive agreements, our Group appoints these companies to promote sales and obtain orders for our Group's products in the specific countries or territories. Our Group is required to furnish these companies with information and support such as product catalogue, certificates and products sample for promoting our standard prefabricated pipe nipple products and steel pipe products and these companies shall be entitled for a commission of a fixed percentage of the contract value if the orders made by the customers introduced by them. Commission payment to these companies is made by bank transfer according to the terms of the agreement. Most of the sales incentive agreements are valid for a fixed term ranging from one to five years. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the agency fee payable to these companies amounted to nil, approximately RMB0.7 million, RMB0.4 million and RMB0.3 million, respectively.

OUR CUSTOMERS

Our customers mainly include gas and HVAC companies, water supply companies, infrastructure and construction companies, wholesalers and distributors which on-sell our products to their own customers mostly in the aforesaid areas of application. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our Group's sales to our top five customers amounted to approximately RMB176.1 million, RMB363.2 million, RMB377.8 million and RMB117.8 million, respectively, representing 38.9%, 38.7%, 31.1% and 28.7% of our total revenue for the corresponding periods. Sales to our largest customer amounted to approximately RMB107.4 million, RMB132.1 million, RMB99.6 million and RMB52.6 million, respectively, representing 23.8%, 14.1%, 8.2% and 12.8% of our total revenue for the corresponding periods.

For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, three, four, four and three of our top five customers began business relationship during the Track Record Period. We acquainted with these customers primarily through tender and our sales and marketing work conducted by our marketing team.

The following tables set forth the breakdown of our revenue from our five largest customers and our business relationship with them during the Track Record Period:

For the year ended 31 December 2016

Ranking	Customer	Sales channel(s)	Revenue *(RMB'000)*	Approximate percentage to the total revenue of our Group *(%)*	Customer profile	Major products supplied by our Group to the customer	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Meide Group	Direct Sales and distributorship	107,422	23.8	Meide Group is a conglomerate which engages in, among others, (i) manufacturing and sale of malleable iron, ductile iron and bronze pipe fittings, malleable iron valves and malleable iron electric power fittings; (ii) production of iron raw materials typically used in foundry industry; and (iii) financial investments	ERW steel pipes and standard prefabricated pipe nipples	2014	60 days	Bank transfer
2.	Customer A	Direct Sales	27,703	6.1	A private company headquartered in Dubai, the United Arab Emirates, which principally engages in the provision of high quality fire protection solutions services and firefighting equipment	ERW steel pipes	2016	60 days	Letter of credit

Ranking	Customer	Sales channel(s)	Revenue *(RMB'000)*	Approximate percentage to the total revenue of our Group *(%)*	Customer profile	Major products supplied by our Group to the customer	Year of commencement of business relationship with our Group	Credit terms	Payment method
3.	Nam Leong Co Pte. Ltd.	Direct Sales	22,302	4.9	A private company incorporated in Singapore, which principally engages in the sales of steel pipes and fittings for the use in buildings, marine and shipbuilding industries	ERW steel pipes	2015	Payment upon delivery	Bank transfer
4.	Customer B	Direct Sales	11,975	2.6	A state-owned company established in the PRC, which principally engages in the provision of HVAC services and the construction of HVAC infrastructure in Zhengzhou, Henan Province, the PRC	SSAW steel pipes	2016	Payment upon delivery	Bank transfer
5.	Customer C	Direct Sales	6,709	1.5	A private company established in the PRC, which principally engages in the provision of HVAC services	SSAW steel pipes	2016	30% paid in advance and 70% paid within one month upon delivery	Bank transfer
	Total revenue from the five largest customers for the year		176,111	38.9					

For the year ended 31 December 2017

Ranking	Customer	Sales channel(s)	Revenue *(RMB'000)*	Approximate percentage to the total revenue of our Group *(%)*	Customer profile	Major products supplied by our Group to the customer	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Meide Group	Direct sales and distributorship	132,112	14.1	See as above	ERW steel pipes and standard prefabricated pipe nipples	2014	60 days	Bank transfer
2.	Customer A	Direct Sales	69,990	7.5	See above	ERW steel pipes	2016	60 days	Letter of credit
3.	ENN Group	Direct Sales	69,478	7.4	A group of companies, which principally engage in the provision of gas and energy in the PRC. The shares of the holding company are listed on the Stock Exchange. It recorded revenue of RMB60.7 billion for the year ended 31 December 2018	ERW steel pipes	2016	60 days	Bank transfer
4.	Customer D	Direct Sales	65,164	6.9	A private company incorporated in the United States, which principally engages in manufacture and sales of pipes, valves and fittings	Standard prefabricated pipe nipples	2017	90 days upon receipt of bill of lading	Bank transfer
5.	Jinan Heating Group Company Limited* (濟南熱力集團有限公司)	Direct Sales	26,504	2.8	A state-owned company established in the PRC, which principally engages in the provision of HVAC services	SSAW steel pipes	2016	Payment upon receipt of invoice	Bank transfer
	Total revenue from the five largest customers for the year		363,248	38.7					

For the year ended 31 December 2018

Ranking	Customer	Sales channel(s)	Revenue (RMB'000)	Approximate percentage to the total revenue of our Group (%)	Customer profile	Major products supplied by our Group to the customer	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	ENN Group	Direct Sales	99,631	8.2	See above	ERW steel pipes	2016	60 days	Bank transfer
2.	Meide Group	Direct sales and distributorship	93,063	7.7	See above	ERW steel pipes and standard prefabricated pipe nipples	2014	60 days	Bank transfer
3.	Customer A	Direct Sales	68,304	5.6	See above	ERW steel pipes	2016	60 days	Letter of credit
4.	Matco-Norca LLC	Wholesaler	61,321	5.0	A private company incorporated in the United States, which principally engages in the sales of valves, fittings and nipples for the plumbing, HVAC, industrial, waterworks and irrigation markets	Standard prefabricated pipe nipples	2017	30 days upon receipt of bill of lading	Bank transfer
5.	Customer D	Direct Sales	55,493	4.6	See above	Standard prefabricated pipe nipples	2017	90 days upon receipt of bill of lading	Bank transfer
	Total revenue from the five largest customers for the year		377,812	31.1					

For the five months ended 31 May 2019

Ranking	Customer	Sales channel(s)	Revenue *(RMB'000)*	Approximate percentage to the total revenue of our Group *(%)*	Customer profile	Major products supplied by our Group to the customer	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	ENN Group	Direct Sales	52,638	12.8	See above	ERW steel pipes	2016	60 days	Bank transfer
2.	Customer D	Direct Sales	17,565	4.3	See above	Standard prefabricated pipe nipples	2017	90 days upon receipt of bill of lading	Bank transfer
3.	Nam Leong Co. Pte. Ltd.	Direct Sales	16,853	4.1	See above	ERW steel pipes and customised steel pipe products	2015	Payment upon delivery	Bank transfer
4.	Customer E	Distributorship	15,510	3.8	A group of private companies established in the PRC, which principally engages in the sales of building construction materials and firefighting equipment	ERW steel pipes	2015	60 days	Bank transfer
5.	Matco-Norca LLC	Whole Seller	15,238	3.7	See above	Standard prefabricated pipe nipples	2017	30 days upon receipt of bill lading	Bank transfer
	Total revenue from the five largest customers for the year		117,804	28.7					

Save for Meide Group, all of our five largest customers are Independent Third Parties. None of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owned more than 5.0% of the issued capital of our Company) had any interest in our five largest customers during the Track Record Period. During the Track Record Period, our Group did not experience any major disruption in business due to material delays or defaulting payments by our customers due to their financial difficulties. Our Directors further confirmed that they are not aware of any of our major customers experiencing material financial difficulties that may adversely affect our Group's business.

Key contract terms with our direct sales and wholesale customers

Save and except for the distributorship agreements and framework agreements with some of our customers, our Group generally entered into sales contracts with our direct sales and wholesale customers or received purchase orders from them.

Set out below are the salient terms of the sales contracts typically entered into with our major direct sales and wholesale customers:

Term	Generally one year.
Product price and specification	As specified therein.
Product quality	Different contracts have different quality and acceptance standards, such as (i) sampling checks before delivery against individual customers' requisite passing rate of sampling checks; (ii) compliance with the product specifications as mutually agreed between the customers and us in advance before production commences; or (iii) compliance with individual customers' internal quality control standards. For some customers, we are required to provide the relevant product quality certificate or quality test reports.
Delivery	We are generally responsible for costs of delivery and will deliver products to our customers' designated location. We engage third party logistics service providers to deliver our products to our customer's designated sites. On some occasions, our customers will come to pick up our steel pipe products or standard prefabricated pipe nipple products from our production plant. For customers outside the PRC, the purchase orders will usually specify the basis under which the delivery shall be made (such as FOB (free-on-board) or CFR (cost and freight) or CIF (cost, insurance and freight)).

Payment	Payment shall be settled in stages: For overseas customers, generally payment shall be paid upon receiving bill of lading or upon delivery. For domestic customers, generally (i) first payment shall be paid upon signing of contract or acceptance of purchase order; (ii) second payment shall be paid upon delivery; and (iii) final payment shall be paid after warranty period.
Payment method	Generally telegraphic transfer or letter of credit.
Liability for breach of contract	We may be liable for compensation if we are unable to deliver our products on time.
Warranty	We allow refund and replacements due to the breach of our warranties in respect of the quality of the products if the complaints are made within the prescribed time set out in the agreements or purchase orders. Such quality standards may include warranties that our products are in compliance with; (i) the specified international certification standards; (ii) the product specifications as mutually agreed between the customers and us in advance; and (iii) individual customers' internal quality control standards.

Sales rebate

During the Track Record Period, as an incentive to our customers, we entered into sales rebate agreements with some of our customers for a term of generally one year. Pursuant to the sales rebate agreements, if our customers orders achieve or exceed a certain amount, sales rebate will be offered to them as an incentive. Generally sales rebates are deducted from the purchase amount under our customers' next purchase orders. Sales rebates are recognised as a reduction of revenue at the time when the rebate is granted. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our rebate granted to our customers amounted to nil, approximately RMB6.6 million, RMB12.4 million and RMB5.5 million, respectively. For the year ended 31 December 2016, there was no sales rebate offered to our customers because the sales of standard prefabricated pipe nipples was in initial stage in 2016 and our Group did not enter into sales rebate arrangement with our customers. Our sales of standard prefabricated pipe nipple products only commenced in November 2016 after the acquisition of business from Meide, as disclosed under "History, Reorganisation and Corporate Structure — Acquisition of the standard prefabricated pipe nipple business from Meide".

Pricing and payment terms

Our pricing policy aims to facilitate a profitable and sustainable growth of our business. Since each product has its own specifications, the pricing of each product is negotiated and determined on a case-by-case basis with individual customers in order to balance the profitability between our customers and our Group. In general, the price of our products is determined based on the following factors: (i) the price of the raw materials; (ii) in respect of assembled piping solutions, the product specifications, functional and quality requirements, complexity of the assembled piping solutions and production process, costs, sales volume, lead time and delivery schedules required by our customers; (iii) the competitive landscape of the market and prices of our competitors' products; and (iv) payment terms.

Our domestic customers usually settle payment by way of telegraphic transfer. For exports sales, in some cases, after sales contracts are entered into with our overseas customers, a letter of credit from such overseas customers will be issued to us pursuant to the settlement and credit terms prescribed in the sales contracts or purchase orders. Finished products will be delivered to our overseas customers usually by terms of FOB or CFR or CIF and, in general, sales will be recognised when the products are delivered to the location designated by our customers. Settlements made by our overseas customers are usually by way of bank transfer.

During the Track Record Period, we typically agreed to a retention period ranging from six months to 24 months for 5% or 10% of the contract value as a quality assurance fund with our certain customers in accordance with the terms specified in the relevant sales contracts.

Credit policy

Our credit period generally ranges from 0 to 180 days. However, variation from this period may occur due to the following reasons: (i) individual customer's scale of operation, reputation and credibility; and (ii) individual customer's payment history. We may provide longer credit period to our customers after internal review. During the Track Record Period, our Group did not experience any material difficulties in collecting payments which caused a significant adverse impact on our business operation.

Warranty

Our sales and marketing team is responsible for handling customers' complaints. To manage customers' satisfaction, we send out satisfaction survey to our customers. If a customer has lodged a complaint on the quality of our products and/or made a written request for compensation and product replacement, our sales and marketing team will pass the matter to our production team and quality control team to inspect the products under complaint. If the complaint and/or the request for compensation and replacement is genuine, we will arrange for compensation or replacement to be sent to customer. For overseas customers, we generally arrange compensation instead of replacement due to cost and time consideration. We generally offer a warranty period up to 24 months from the date of delivery of our products. During the Track Record Period, we had experienced material incidents in relation to product quality of our steel pipes products which we had made monetary compensation in the total sum of approximately RMB0.9 million to one of our domestic customers. Save as disclosed, we had not experienced any other material compensation and replacement owing to any quality issue, which would have caused any material and adverse impact on the financial condition and operating results of our Group.

PROCUREMENT OF RAW MATERIALS

Major raw materials used by us for manufacturing standard prefabricated pipe nipple products and steel pipe products include steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastics. We maintain an optimal inventory level of major raw materials. Upon receiving confirmation from our customers' orders, we will check the inventory level of these raw materials and if necessary, we will place orders with our suppliers who are on our list of approved suppliers list. We did not face any material shortages in raw materials during the Track Record Period and up to the Latest Practicable Date which have caused material and adverse financial impact on our Group's business operation.

Raw materials

Our costs of raw materials, being the largest component of our cost of sales, primarily comprise costs of steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastics. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, our total cost of raw materials amounted to approximately RMB331.3 million, RMB630.0 million, RMB809.8 million and RMB272.2 million, representing 89.0%, 87.1%, 86.5% and 85.7%, of our total cost of sales, respectively for the corresponding periods. Our Group generally purchase raw materials based on (i) confirmed purchase orders from customers and their scheduled delivery; (ii) our projected production schedule; and (iii) our inventory levels. It generally takes around two weeks to deliver the raw materials from our suppliers to our production plant. For details of our quality control on raw materials, see "Quality control on raw material" below.

Our procurement team will closely monitor the price of the raw materials. When our Group anticipates there will be any increase in the price of raw materials or shortage of supply thereof, our Group may adjust our procurement plan accordingly in order to minimise the exposure to fluctuations in prices and supply.

As both product price and quantity are, in general, specified in the sales contracts, any increase in raw materials prices after the signing of sales contracts with our customers will affect our gross profit margin. In such connection, our procurement team maintains close collaboration with our production team in the formulation of the procurement plan of these raw materials on a regular basis. Our Directors believe that such close collaboration between our procurement team and our production team helps to ensure that the sales price of our products can cover the costs in purchasing raw materials from our suppliers. Moreover, we entered into master procurement agreement with our suppliers for a term of generally one year. See "Salient terms of our master procurement agreements" below for further details.

The table below sets forth a breakdown of our cost of raw materials during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Steel coils	256,554	77.5	451,852	71.7	594,104	73.4	193,943	71.2
Pre-processed pipes *(Note 1)*	25,290	7.6	63,343	10.1	65,482	8.1	17,138	6.3
Zinc ingot	15,628	4.7	45,028	7.1	45,475	5.6	15,419	5.7
Consumables *(Note 2)*	33,812	10.2	69,757	11.1	104,761	12.9	45,674	16.8
Total	331,284	100.0	629,980	100.0	809,822	100.0	272,174	100.0

Notes:

1. Pre-processed pipes include stainless steel pipes, brass pipes or seamless steel pipes.

2. Consumables include, among others, paints and plastics.

HEDGE

For forward purchase of steel coils

During the Track Record Period, our cost of sales comprises a significant portion of steel coils. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, cost of steel coils amounted to approximately 68.9%, 62.5%, 63.5% and 61.0% of our total cost of sales, respectively. As the price of steel coils might be volatile and susceptible to fluctuation, we entered into commodity derivative contracts during the Track Record Period to reduce the risk exposure of our Group as a result of fluctuation in price of steel coils.

During the year ended 31 December 2018, certain commodity derivative contracts have been closed out, which resulted a realised loss of approximately RMB0.5 million. Our Group also incurred unrealised gain of approximately RMB0.2 million for the unexpired commodity derivative contracts during the year ended 31 December 2018. As at 31 May 2019, our Group has commodity derivative contracts with fair value of nil. The fair value of the commodity derivative contracts has been estimated by reference to the quoted bid prices in Shanghai Futures Exchange.

Our commodity activities were managed and overseen by our management team and procurement team. During the Track Record Period, our management team and procurement team regularly reviewed our estimated amount of steel coils that would be used as raw materials based on our orders on hand and projected production plan. Our management team and procurement team then assessed our hedge needs, taking into account factors such as steel coils price movement, the prevailing steel coils price and market condition. Our relevant procurement staff would then prepare a hedge application form setting out the date of the commodity derivative contracts, the price and quantity of steel coils to be purchased, the name of steel coils supplier, the corresponding sales contracts or purchase orders to be hedged and other relevant information including the name of our customers and the name of applicant. Our management team would, based on the application prepared by the procurement team and taking into consideration of the abovementioned factors, discuss and determine whether to enter into any commodity derivative contracts. As at the Latest Practicable Date, all the commodity derivative contracts have been closed out. Our Group currently do not intend to enter into any commodity derivative contracts. For details, see "Financial Information — Derivative financial instruments".

For foreign currency forward contracts

During the Track Record Period, our Group entered into USD to RMB net-settled foreign currency forward contracts with banks in the PRC in order to manage our Group's currency risk. Our Directors confirmed that the foreign exchange hedge activities conducted by us during the Track Record Period were to reduce the risk exposure of our Group as a result of fluctuation in foreign currency. During the Track Record Period, a portion of our Group's revenue was derived from our export sales and was primarily denominated in USD, while our cost of sales was primarily denominated in RMB. In order to hedge the expected appreciation of RMB against USD, for the year ended 31 December 2018, we entered into certain foreign exchange forward contracts. The financial derivative contracts were entered into with banks in the PRC with most of the maturity period ranged from one to four months. These foreign currency forward contracts were not accounted for under hedge accounting.

Our foreign exchange hedge activities were managed and overseen by our finance team. During the Track Record Period, the finance team assessed our hedge needs on regular basis, taking into account factors such as the amount of our existing foreign exchange contracts, the then foreign exchange rate movement, and the then prevailing foreign exchange market condition. Our finance team would obtain relevant market information, analyse the pros and cons of various types of financial derivative contracts and determine the type, number and amount of financial derivative contracts that our Group could consider to enter into. Our finance manager would obtain quotations from various banks and the finance team would consider the exchange rate of each of such quotations and make a decision as to whether to enter into the relevant financial instruments. Our finance manager would negotiate with the relevant banks and we would execute the financial derivative contracts if we consider them to be beneficial to our business operations. Our finance team would prepare a summary report setting out the financial derivative contracts we had entered into, the expiry date of each of such agreements, the exchange gain or loss of that particular financial derivative contract. Our finance team would, based on the summary report and taking into consideration the abovementioned factors, discuss and determine whether to enter into further financial derivative contracts in the following months.

Commodity futures hedge policy by adopted by our Company

Our Group has adopted a formal futures hedging management policy which, among other things, stipulates that:

(i) we shall not enter into any futures contracts where the total quantity of commodities exceed our production needs and our hedging positions shall not exceed a certain percentage of the value of the products purchased by us;

(ii) where the total maximum value of the relevant futures contracts does not exceed 30% of the net assets as stated in the latest audited accountants' report, our Directors, shall have the decision-making power in the relevant hedging activities under the contract;

(iii) our finance department shall be responsible for the capital risk management including but not limited to (a) monitoring the actual and gloating gain/loss of the hedging transactions; (b) reporting to our Board in case of any excess positions and/or abnormality in price; and (c) regularly obtaining updates in relation to business development and the credit standing of the futures contracts brokers and reporting the same to our Board; and

(iv) our audit department shall be responsible for the operational risk management and reporting to our Board where, among others, (a) any officers participating in hedging transactions do not comply with the risk management policies or procedures; (b) our hedging activities give or may give rise to any legal risks; or (c) any futures contracts do not conform to the relevant regulation.

OUR SUPPLIERS

During the Track Record Period, our suppliers mainly included suppliers of steel coils, pre-processed pipes, zinc ingots and consumables such as paints and plastics. In order to obtain better pricing terms from suppliers and to avoid reliance on any single source of supply, we maintain close business relationships with a number of suppliers for principal raw materials.

Our top five suppliers

During the Track Record Period, our purchases from our five largest suppliers amounted to approximately RMB209.7 million, RMB459.0 million, RMB574.0 million and RMB234.5 million, respectively, representing 54.1%, 62.9%, 63.7% and 58.4% of our total purchases for the corresponding periods; while our purchases from our largest supplier amounted to approximately RMB76.0 million, RMB153.6 million, RMB220.1 million and RMB88.7 million, respectively, representing approximately 19.6%, 21.0%, 24.4% and 22.1% of our total purchases for the corresponding periods. The following tables set forth certain information relating to our five largest suppliers during the Track Record Period:

For the year ended 31 December 2016

Ranking	Supplier	Total purchase (RMB'000)	Approximate percentage to the total purchases of our Group (%)	Supplier profile	Principal raw materials purchased	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Supplier A	75,961	19.6	A company established in the PRC, which principally engages in production of medium and wide steel coils. The shares of its holding company are listed on the Singapore Exchange Limited	Steel coils	2016	Payment in advance	Bank transfer
2.	Supplier B	48,416	12.5	A private company established in the PRC, which principally engages in production of steel coils	Steel coils	2016	Payment in advance	Bank transfer
3.	Shandong Taishan Steel Group *(Note 2)*	35,459	9.2	A group of companies established in the PRC, which principally engages in production of steel materials	Steel coils	2014	Payment in advance	Bank transfer
4.	Supplier C	25,691	6.6	A private company established in the PRC, which principally engages in the retail of stainless steel products	Steel coils	2016	Payment in advance	Bank transfer
5.	Rongcheng Group *(Note 1)*	24,149	6.2	A group of companies established in the PRC, which principally engage in the trading of commodities, including, among others, steel, ore, mineral powder and metal products	Steel coils	2016	Payment in advance	Bank transfer
	Total purchases from the five largest suppliers for the year	209,676	54.1					

Notes:

1. Rongcheng Group includes Rongtong Trading (Tianjin) Electronics Limited* (融通物貿(天津)電子商務有限公司) and Tianjin Rongchengxiang International Trading Limited* (天津榮程祥國際貿易有限公司).

2. Shandong Taishan Steel Group includes Shandong Taishan Steel Group Limited* (山東泰山鋼鐵集團有限公司) and Shandong Taishan Stainless Steel Group Limited* (山東泰山不銹鋼有限公司).

For the year ended 31 December 2017

Ranking	Supplier	Total purchase *(RMB'000)*	Approximate percentage to the total purchases of our Group *(%)*	Supplier profile	Principal raw materials purchased	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Rongcheng Group *(Note 1)*	153,593	21.0	See above	Steel coils	2016	Payment in advance	Bank transfer
2.	Supplier A	123,771	17.0	See above	Steel coils	2016	Payment in advance	Bank transfer
3.	Supplier D	83,129	11.4	A group of state-owned companies established in the PRC, which principally engages in the production and sale of iron ore, steel and other materials	Steel coils	2015	Payment in advance	Bank transfer
4.	Shandong Taishan Steel Group *(Note 2)*	58,601	8.0	See above	Steel coils	2014	Payment in advance	Bank transfer
5.	Supplier C	39,876	5.5	See above	Steel coils	2016	Payment in advance	Bank transfer
	Total purchases from the five largest suppliers for the year	458,970	62.9					

Notes:

1. Rongcheng Group includes Rongtong Trading (Tianjin) Electronics Limited* (融通物貿(天津)電子商務有限公司) and Tianjin Rongchengxiang International Trading Limited* (天津榮程祥國際貿易有限公司).

2. Shandong Taishan Steel Group includes Shandong Taishan Stainless Steel Group Limited* (山東泰山不銹鋼有限公司) and Shandong Taishan Steel Group Limited* (山東泰山鋼鐵集團有限公司).

For the year ended 31 December 2018

Ranking	Supplier	Total purchase *(RMB'000)*	Approximate percentage to the total purchases of our Group *(%)*	Supplier profile	Principal raw materials purchased	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Rongcheng Group *(Note 1)*	220,134	24.4	See above	Steel coils	2016	Payment in advance	Bank transfer
2.	Supplier A	143,507	15.9	See above	Steel coils	2016	Payment in advance	Bank transfer
3.	Shandong Taishan Steel Group *(Note 2)*	88,181	9.8	See above	Steel coils	2014	Payment in advance	Bank transfer
4.	Supplier D	67,293	7.5	See above	Steel coils	2015	Payment in advance	Bank transfer
5.	Henan Yuguang Zinc Limited* (河南豫光鋅業有限公司)	54,877	6.1	A state-owned company established in the PRC, which principally engages in zinc smelting and the trading of zinc-related products	Zinc ingot	2017	Payment in advance	Bank transfer
	Total purchases from the five largest suppliers for the year	573,992	63.7					

Notes:

1. Rongcheng Group includes Rongtong Trading (Tianjin) Electronics Limited* (融通物貿(天津)電子商務有限公司) and Tianjin Rongchengxiang International Trading Limited* (天津榮程祥國際貿易有限公司).

2. Shandong Taishan Steel Group includes Shandong Taishan Stainless Steel Group Limited* (山東泰山不銹鋼有限公司) and Shandong Taishan Steel Group Limited* (山東泰山鋼鐵集團有限公司).

For the five months ended 31 May 2019

Ranking	Supplier	Total purchase *(RMB'000)*	Approximate percentage to the total purchases of our Group *(%)*	Supplier profile	Principal raw materials purchased	Year of commencement of business relationship with our Group	Credit terms	Payment method
1.	Roncheng Group	88,671	22.1	See above	Steel coils	2016	Payment in advance	Bank transfer
2.	Supplier A	76,135	19.0	See above	Steel coils	2016	Payment in advance	Bank transfer
3.	Shandong Taishan Steel Group	36,117	9.0	See above	Steel coils	2014	Payment in advance	Bank transfer
4.	Supplier D	20,112	5.0	See above	Steel coils	2015	Payment in advance	Bank transfer
5.	Supplier E (河北鄲合)	13,460	3.4	A private company established in the PRC, which principally engages in trading of steel coils	Steel coils	2018	Payment in advance	Bank transfer
	Total purchases from the five largest suppliers for the year	234,495	58.5					

None of our Directors, their close associates or any Shareholders (which to the knowledge of our Directors owned more than 5.0% of the issued share capital of our Company) had any interests in our five largest suppliers during the Track Record Period.

Salient terms of our master procurement agreements

Apart from issuing standard purchase orders to our suppliers for procurement, we also enter into master procurement agreements with some of our major suppliers to ensure a stable supply of raw materials. Set out below is a summary of the typical key terms and conditions of our contracts with our suppliers:

Term	Generally one year.
Price	Prevailing market price. Discount will be offered to our Group if our monthly order exceeds a certain threshold as specified therein.
Payment	We are generally required to settle part of or all of our payment for the next month by the end of the preceding month. If we fail to settle our payment to our suppliers on time, the supplier shall forfeit certain amount of our deposit according to the terms of the agreement.
Payment method	Bank transfer and acceptance bill.
Deposit	We may be required to pay deposit to our suppliers. Such deposit shall return to our Group after the end of contract.
Minimum purchase amount	Generally approximately 800 to 3,000 tons per month (for steel coils). If we fail to satisfy the monthly minimum amount, our supplier is allowed to deduct our deposit as penalty.
Order	We are generally required to place our orders for next month by the end of the preceding month.
Delivery	We are generally responsible for costs of delivery and will arrange third party logistics providers to deliver the raw materials to us.
Warranty	We shall make any complaints in relation to product quality issue within the agreed period after delivery.
Termination	In some cases our supplier can terminate the agreement if we fail to settle payment on time twice during the terms of the agreement. On the other hand, in some cases, in the event there is a breach of the contract by our suppliers including but not limited to failing to deliver raw materials on time, we can terminate the contract if our suppliers fail to rectify such breach within a certain period of time.

Selection of suppliers

Our Group selects suppliers based on a number of criteria including but not limited to their product quality, pricing, scale of operation, delivery time and reputation in the industry of each potential supplier before they are put on our list of approved suppliers. Potential new suppliers of major raw materials will undergo a probation period during which their performance will be reviewed by our procurement team. It is our policy to maintain a list of approved suppliers to ensure the quality of our raw materials. Our Group reviews the background of these potential new suppliers including but not limited to their business licence(s). We will also sample test the raw materials supplied by the new potential suppliers. The performance of our suppliers is evaluated from time to time based on criteria such as quality of raw materials, response to enquiries and complaints, and reputation of the suppliers. These suppliers or any one of them would be removed from the list should they fail to satisfy our quality and requirements upon our review. We tend to maintain stable relationships with our suppliers to ensure that no disruption is caused to our operation as a result of any change in supplier.

Our transactions with Meide Group

Background of Meide Group

Mr. Kong wholly-owns Ningbo Ming De, which in turn owns 35.49% of Meide. He currently also holds 6.50% interest in Jinan Gong Chuang Meide and was appointed in January 2017 as the general partner of Jinan Gong Chuang Meide, which in turn owns 64.51% of Meide from August 2016. As such, he obtained control of Meide in January 2017. Meide Group is engaged in business operations across different sectors, including (i) manufacture of malleable iron, ductile iron and bronze pipe fittings, malleable iron valves and malleable iron electric power fittings in the PRC, (ii) production of iron raw materials typically used in foundry industry, and (iii) financial investment. For details of the businesses of Meide Group, see "Relationship with our Controlling Shareholders".

Purchase from Meide Group during the Track Record Period

During the Track Record Period, our Group sourced raw materials and finished products from the Meide Group, mainly including zinc ingots for the manufacturing of steel pipe products, and pipe fittings and valves for our supply of assembled piping system.

Furthermore, in November 2016, we acquired the (i) manufacturing facilities, supporting electronic equipment and vehicles for the manufacturing of standard prefabricated pipe nipples; (ii) raw materials, semi-finished products and finished products of standard prefabricated pipe nipples; and (iii) the factory buildings (collectively the "**Relevant Assets**") from Meide. For details of the acquisition, see "History, Reorganisation and corporate structure — Our Corporate Development — Acquisition of the standard prefabricated pipe nipples business from Meide".

Upon completion of the acquisition, in addition to the manufacturing of ERW steel pipes and SSAW steel pipes, our Group had the ability to expand our manufacturing capability to cover standard prefabricated pipe nipple products.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total purchase from Meide Group amounted to nil, RMB33.1 million, RMB1.2 million and RMB0.6 million respectively, representing nil, 4.5%, 0.1% and 0.1% of our total purchase for the corresponding periods. The purchase price offered by Meide Group was similar to our other suppliers during the Track Record Period with comparable terms of sales.

Sales to Meide Group during the Track Record Period

As at the commencement of the Track Record Period, we sold ERW steel pipe products and SSAW steel pipe products to Meide Group. ERW steel pipes were used by Meide Group as raw material for the manufacturing of standard prefabricated pipe nipples and Meide Group also purchased SSAW steel pipes from us for self-use.

Upon completion of the acquisition of the Relevant Assets, in addition to the manufacturing of ERW steel pipes and SSAW steel pipes, our Group had the ability to expand our manufacturing capability to cover standard prefabricated pipe nipple products in addition to our steel pipe business. After the acquisition of the Relevant Assets, we sold our ERW steel pipe products and standard prefabricated pipe nipple products through Meide Group, who acted as our distributor. In addition, Meide Group continued to purchase SSAW steel pipe products from our Group for its direct use.

Set forth in the table below is the amount of sales made to Meide Group in terms of sales channel during the Track Record Period:

	For the years ended 31 December						For the five months ended 31 May	
	2016		2017		2018		2019	
Sales channels	*(RMB'000)*	*% of total revenue*	*(RMB'000)*	*% of total revenue*	*(RMB'000)*	*% of total revenue*	*(RMB'000)*	*% of total revenue*
Distributorship	50,863	11.2	127,821	13.6	75,506	6.2	12,103	2.9
Direct sales	56,559	12.5	4,291	0.5	17,557	1.5	1,784	0.4
Total	107,422	23.7	132,112	14.1	93,063	7.7	13,887	3.3

Our sales to Meide Group increased from approximately RMB107.4 million for the year ended 31 December 2016 to approximately RMB132.1 million for the same period in 2017 mainly driven by the increase in sales of standard prefabricated pipe nipple products to Meide Group following the acquisition of the Relevant Assets in November 2016. The sales to Meide Group from our Group decreased for the year ended 31 December 2018 as compared to the same period in 2017 which is mainly attributable to the decrease in sales under the distributorship model. We have recorded a drop in sales to Meide Group under the distributorship channel for the year ended 31 December 2018. Since, to the best knowledge of our Directors after making all reasonable enquiries, Meide Group had received less purchase orders for the same period and thus had affected their purchase amount placed with our Group. During the Track Record Period, our sales to Meide Group under both distributorship and direct sales channels were under similar terms with other customers under the respective sales channels and with similar profit margins.

Our Directors are of the view that our Group was and will be able to make sales to the customers without the involvement of Meide Group due to (i) our established sales network; (ii) our Group has its own professional marketing and sales department to serve the customers; (iii) our ability to develop new customers during the Track Record Period without the involvement of Meide Group; and (iv) our Group's sales to the customers were totally independent from the Meide Group since Meide Group had not referred any customers to our Group nor provided any guarantee on our Group's sales to the customers during the Track Record Period.

Our transactions with Meide Group have been, and will be, on normal commercial terms based on arm's length negotiations and comparable to Independent Third Parties. After the Listing, our transactions with Meide Group, a connected person under the Listing Rules, will constitute continuing connected transactions of our Group. For details, see "Continuing connected transactions".

We consider that our transactions with Meide Group does not constitute undue reliance and would not affect the overall sustainability of our business for the following reasons:

— *Customer/supplier concentration not extreme and had decreased gradually*. For the three years ended 31 December 2018 and the five months ended 31 May 2019, Meide Group accounted for 23.7%, 14.1%, 7.7% and 3.3%, respectively of our total revenue. For the corresponding periods, Meide Group accounted for nil, 4.5%, 0.1% and 0.1%, respectively of our total purchase. The transaction amounts in terms of percentage of our total revenue and purchases with Meide Group decreased gradually from the years ended 31 December 2016 to 31 December 2018 and the five months ended 31 May 2019.

— *Diversified sales channels giving us contingent sales capability*. As discussed above, we have built up a broad and geographically diversified customer base and we are not dependent on any single customer or group of customers. Apart from Meide Group, we transacted with over 380 direct customers 60 wholesalers and 10 distributors. In the unlikely event that we ceased business relationship with Meide Group, our relationship with Meide Group is disrupted for any reasons, our Directors believe that we will able to solicit sales through other sales channels and maintain the operating financial performance without incurring any significant and financial costs.

— *Transactions are mutually beneficial*. Both our Group and Meide Group have a sizeable base of third-party suppliers and customers, enabling the each of us to operate our respective businesses independently in a sustainable manner. From Meide Group's perspective, our Directors consider that our business relationship is also mutually beneficial given that we are well-positioned in both the standard prefabricated pipe nipple industry and steel pipe industry and manufacture and sales of stable and sizable amount of standard prefabricated pipe nipple products and steel pipe products to satisfy Meide Group's customers' orders and their requirements and accommodate their growth.

— *Operational and commercial benefits*. As disclosed in "Relationship with our Controlling Shareholders — Delineation of business", a typical piping system comprises, among others, steel pipes, standard prefabricated pipe nipples and pipe fittings. Meide Group engages in business operations of, among others, manufacturing of malleable iron, ductile iron and bronze pipe fittings, malleable iron valves and malleable iron electric power fittings in the PRC (the "**Pipe Fitting Products Business**") and our Group engages in the manufacturing of steel pipe products and standard prefabricated pipe nipple products. In order to install a complete piping system, some customers will purchase the relevant components as set forth above. Meide Group had engaged in the Pipe Fitting Products Business for over 20 years and throughout these years, Meide Group has built extensive sales networks across the world and long-standing business relationship with various customers and a wide range of product offerings. The continuation of our collaboration with Meide Group is a reasonable business decision as we can utilise Meide Group's established sales network to sell our products in different volume to customers without having the need to approach a large number of customers thereby minimising our costs, expenses and efforts in sales and marketing.

Overlapping of customers and suppliers between Meide Group and our Group

For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, there are 86, 142, 124 and 110 customers which had placed orders from both our Group and Meide Group. The relevant customers represented approximately 22.3%, 29.3%, 22.8% and 33.5% of our total number of customers for the corresponding periods. The amount of revenue generated by these overlapping customers was approximately RMB53.1 million, RMB379.1 million, RMB564.6 million and RMB122.5 million for each of the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively, representing approximately 11.7%, 40.4%, 46.5% and 28.2% of our Group's total revenue for the corresponding periods. Our Directors are of the view that, as there are no competition of business, directly or indirectly, between our Group and Meide Group, the overlapping of customers will not have any adverse effect to our business operations.

For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, there are 121, 163, 182 and 167 suppliers which had supplied raw material to both our Group and Meidi Group. The relevant suppliers represented approximately 35.1%, 38.8%, 41.6% and 42.5% of our total number of suppliers for the corresponding periods. The amount of raw material procured from these overlapping suppliers was approximately RMB5.6 million, RMB64.0 million, RMB123.0 million and RMB32.1 million, for each of the three years ended 31 December 2018 and five months ended 31 May 2019, respectively, representing approximately 1.6%, 8.7%, 10.6% and 8.1% of our Group's total cost of raw material for the corresponding periods.

To the best knowledge of our Directors after making all reasonable enquiries, during the Track Record Period and up to the Latest Practicable Date, Meide Group did not refer any customers to our Group. As confirmed by our Directors, negotiations of the terms of our sales to and purchases from Meide Group were conducted on a case-by-case basis and the sales and purchases were neither interconnected nor inter-conditional with each other. Given that (i) the prices of our products are determined by our management team by using cost-plus basis; (ii) sales document such as sales invoices and delivery notes to Meide Group are in standard forms and are consistent with those issued to other major customers of our Group; and (iii) the credit period granted to Meide Group is 60 days, which is in line with the credit period we granted to our other customers, our Directors consider that the terms of transactions with Meide Group are similar and comparable to those transactions with our other customers and suppliers.

INVENTORY MANAGEMENT

Our inventories mainly include raw materials, work-in-progress and finished products. As most of our products are produced based on individual orders, there is no significant risk of obsolescence. As at 31 December 2016, 2017 and 2018 and 31 May 2019, our inventories amounted to approximately RMB114.2 million, RMB181.8 million, RMB177.8 million and RMB248.5 million, respectively.

We strive to maintain optimal level and carry out inventory check for better control and management of inventories to ensure the accuracy and completeness of information on record. We have implemented an inventory management system, which enables us to monitor the stock movement of the raw materials, work-in-progress goods and finished products which should be in alignment with our product delivery requirements and schedules. Our procurement and inventory team, which consists of 30 staff as at 31 May 2019 closely monitors and controls the inventory levels of our raw materials, work-in-progress products and finished products so as to optimise the allocation of our internal resources.

Raw materials

In order to meet our continuous production needs and avoid accumulation of excessive inventories, we formulate our procurement plan and budget for purchases of the raw materials that we frequently use in manufacturing process, primarily based on (i) confirmed purchase orders from customers and their scheduled delivery; (ii) our projected production schedule for our standard prefabricated pipe nipple products and steel pipe products; (iii) the prevailing price of our major raw materials; and (iv) our inventory levels.

On receipt of an order or invitation to tender, we will identify all raw materials required and review the delivery schedule for the raw materials previously ordered or, as appropriate, prepare a delivery schedule for the raw materials required by the order or tender. A production schedule will then be prepared to ensure efficient production.

Work in-progress and finished products

We closely monitor the inventory level of certain products with high demand to minimise the inventory level. Our production team will determine the minimum inventory level of these products based on customers' past orders. We maintain a full stock report on finished products upon completion of regular stock check and the verification with our head of production.

QUALITY ASSURANCE

We believe that a stringent quality control over our products is crucial to our continued success. As such, we place strong emphasis on product quality and consistency in product performance, which are the major factors for our customers in choosing our products. As at 31 May 2019, our quality control team consists of 35 staff. Our quality control team is responsible for overseeing the quality control on our raw materials, our finished products and the processing or manufacturing process.

Apart from the above mentioned quality control and manufacturing measures, the quality of our finished products is also determined by the quality of raw materials. As such, all raw materials are sourced from reliable suppliers and incoming raw materials are subject to detailed physical inspection according to our strict specifications on a random sampling basis before they are warehoused or enter into our production line.

Quality control on our finished products

Our Directors believe that quality control on finished products serves as the final control point to ensure that outgoing products comply with the customers' requirements and the industry standards. We require the quality control personnel to conduct visual inspection on our finished products. Apart from visual checking, our finished products are randomly checked and tested by testing instruments and equipment such as tensile strength testing instrument and drop-weight tear tester.

Quality control on raw materials

Our raw materials are subject to examination by random sampling by our procurement team upon delivery. We require our suppliers to produce the relevant certificates. We require our raw materials comply with our requirements in terms of width, thickness, tensile strength and chemical composition. Furthermore, we will examine the quality of our raw materials using spectrum analysis instrument.

Quality control throughout the manufacturing process

Our Group has established and maintained a documented quality management system accredited with the quality management certificate ISO 9001:2015. Our Directors believe that this system creates a framework that clearly defines the control of raw materials, processes, and verification activities, thus providing our customers with confidence that the operational aspects of our Group are performed in a well-defined and controlled environment. Our manufacturing and processing process control consists of a multi-point check system from the beginning to the end of our manufacturing and processing process. Our quality control personnel sample-test our work-in-progress and in the major steps of the manufacturing process using various testing instrument such as hydrostatic testing machine and x-ray inspection machine. The whole manufacturing process is closely monitored and the performance is properly logged so that the reasons for any default can be traced. Our Directors believe that our Group's ability to (i) consistently provide products that meet customers' specifications and applicable certifications; and (ii) enhance customer satisfaction through effective application of the system, enables us to retain existing customers as well as to attract new customers.

OCCUPATIONAL HEALTH AND SAFETY

Our operation is subject to a number of regulatory requirements imposed by the PRC government with regard to employees' health and safety. We regard occupational health and safety as one of our important social responsibilities. We are committed to providing our employees with a safe and healthy working environment. As such, we have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, warehouse safety, work-related injuries and emergency and evacuation procedures, which all of our employees are required to comply. Our management team inspect our production plant from time to time in order to ensure that such production plant are safe for use. We also organise work place safety training for our employees on a regular basis and arrange personnel to supervise different stages of our production process so as to promote work place safety.

During the Track Record Period and up to the Latest Practicable Date, our Group was not involved in any significant incidents or accidents in relation to workers' health and work safety or litigation proceedings or any non-compliance with the applicable laws and regulations relevant to worker's health and work safety where our Group operates. We had not received any significant claims for damages or compensation in relation to any material industrial accident of our employees, and we did not experience any material disputes with our employees that had a material adverse effect on our operation.

As confirmed by our PRC Legal Adviser and based on the written confirmation issued by competent authorities, our Group had complied with the applicable national and local safety laws and regulations of the PRC in all material respects during the Track Record Period and up to the Latest Practicable Date, and the relevant PRC authorities had not imposed any material sanctions or penalty on us for incidents of non-compliance of any safety laws or regulations in the PRC.

ENVIRONMENTAL COMPLIANCE

We strive to minimise impacts on the environment caused by our operations. In order to comply with the applicable environmental protection laws and regulations in the PRC, we have work procedures to govern environmental protection matters. Under the prevailing laws and regulations in the PRC, we are subject to Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), Evaluation of Environmental Effects Law of the PRC (《中華人民共和國環境保護影響法》), Prevention and Control of Atmospheric Pollution Law of the PRC (《中華人民共和國大氣污染防治法》), Prevention and Control of Environmental Noise Pollution Law of the PRC (《中華人民共和國環境噪聲污染防治法》), Prevention and Control of Solid Waste Pollution Law of the PRC (《中華人民共和國固體廢物污染環境防治法》), and Regulations on Environmental Protection Management for Construction Projects (《建設項目環境保護管理條例》), and Promotion of Cleaner Production Law of the PRC (《中華人民共和國清潔生產促進法》). For further details, please see "Regulatory Overview — Overview of the PRC Laws and Regulations — Regulations relating to Environmental Protection".

We have devised a series of procedures in relation to handling waste materials to ensure that our operation will not cause any material damage to the environment. We have established and implemented various internal control rules and guidelines regarding environmental compliance and pollution controls to ensure that the wastes generated by our Group are properly stored, treated on-site, recovered on-site for materials or products from such wastes or delivered to and received at prescribed premises for treatment, disposal or recovery of material or product from wastes. We have our own wastewater treatment station in our production plant to process wastewater produced during our manufacturing activities. Further, we have our own dangerous waste warehouse to separate our dangerous waste from our finished products.

Our Directors believe that our Group's current environmental conservation facilities are adequate to satisfy the relevant laws and regulations and do not expect any major or significant expenditure to be incurred in the future. Our Directors also confirmed that our Group has not been subject to any material environmental claims, lawsuits, penalties or administrative sanctions, and the operations of our Group have been in compliance with the relevant environmental laws and regulations in all material respects in the PRC during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We maintain freight insurance coverage against, among other matters, the loss, destruction or damage to our products during transportation to our overseas customers. We will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice. As at the Latest Practicable Date, our Group had not made, nor been the subject of, any material insurance claim. For the risks associated with our insurance policies, please see "Risk Factors — Risks relating to our business — We engage third party logistics providers to deliver our products and our customers may claim us for the loss or damage to our products during delivery".

MARKET AND COMPETITION

Competitive landscape of the standard prefabricated pipe nipple industry in the PRC

According to the Frost & Sullivan Report, the industry concentration is relatively low, with the top five leading market players registering approximately 15.2% of the entire market. Our Group has occupied the largest market share of 7.1% in terms of export value among the top five leading players in 2018.

Driven by the primarily export-oriented nature of the industry, as well as the stimulation of the infrastructure construction industries contributory to the rapid development of urbanisation in the PRC, the PRC standard prefabricated pipe nipple industry has been constantly growing in order to meet the domestic and overseas product demand for standard prefabricated pipe nipple products.

There are a number of entry barriers to the industry, which includes: (i) the need of in-depth market know-how, business network as well as strong research and development capabilities due to the increasingly complicated specification requirements in relation to standard prefabricated pipe nipple products, as well as the additional regulations attributable to overseas markets; (ii) the difficulty for new entrants to establish a comprehensive dealer network so as to foster a strong business presence in overseas markets; and (iii) the intensive competition environment of the industry which incentivises current participants to maximise production efficiency, and in turn raises the industry threshold for new entrants in terms of capital requirement.

On the other hand, the key success factors in the industry are: (i) to establish and utilise effective marketing channels, so as to reach and educate both domestic and overseas clients to understand the utility value and merits of standard prefabricated pipe nipple products; (ii) to implement a comprehensive quality control system, so that errors in product specifications and other potential production issues can be minimised, which in turn also minimises the possibility of consequential lawsuits as well as damage to the brand reputation; and (iii) to achieve economies of scale in accordance with the industry characteristics such as high initial costs, high requisite cash reserves as well as the fact that an expanding production scale can effectively lower the total cost of each product.

Competitive landscape of the steel pipes manufacturing industry in the PRC

According to the Frost & Sullivan Report, the steel pipe manufacturing industry in the PRC is fragmented, consisting of more than 1,000 industry participants with the top five players recording an aggregate market share of 40.0%. Our Group accounted for 0.2% market share in terms of revenue in the PRC steel pipes manufacturing industry in 2018.

The fragmented competitive landscape is due to the high transportation cost of steel pipes and corresponding raw materials, which is contributory to the heavy weight of steel pipes, as well as the substantial volume of steel pipes due to their hollow structure, rendering transportation unideal and manufacturers adopting relatively localised strategy. The industry is also considered to be very competitive, as manufacturers tend to place their focus on several specific product categories to gain industry recognition and competitive edge against other participants. In consideration of such tendency, establishing long-term relationships with suppliers and clients is an invaluable asset to steel pipe manufacturers, particularly those which serve the leading brands that are giant players in the gas sector, or the government.

The entry barriers to the industry include: (i) the need to accrue industry experience and technological know-how in order to achieve product quality assurance, as well as effectiveness in the manufacturing of pipelines; and (ii) the need for new entrants to establish an extensive network of a stable stream of business relationships, so as to secure future projects and maintain competitiveness, reputation and partnerships within the industry.

The key success factors to the industry are: (i) the ability to satisfy the customised demand from clients with top notch research and development capability; and (ii) effective manufacturing process management to lower total production cost and ensure timely delivery of products.

On the other hand, the demand for energy, transportation and petrochemical steel pipes have been on the rise. At the same time, the seamless steel pipes required for the construction and maintenance of energy, transportation, petrochemical and other facilities still occupy a critical position in the market demand for steel pipes. Also, the demand for other variants of steel pipes is also on an increasing trend. First, the demand for high performance variants of steel pipes such as high-performance oil well pipes, corrosion-resistant pipes and so on, have increased rapidly. Second, in automotive, home appliance and shipbuilding industries, the demand for steel pipes corresponding to such industries has increased as well. In light of the above, the variety and quality standards of steel pipes have risen with the addition of higher-technology contents. As such, steel pipe manufacturers should anticipate the need to invest more on product innovation, as well as improving current production processes.

In view of the competition in the standard prefabricated pipe nipple industry and steel pipes manufacturing industry, we believe that our competitive strengths have contributed to the success of our Group and under the management of our experienced Directors and senior management, our Group is well positioned to capture the growing demand for the steel pipes manufacturing industry and standard prefabricated pipe nipple industry in the PRC. For further details of our competitive strengths, see "Competitive strengths" above.

SEASONALITY

As our products are generally applied in HVAC systems, most of our sales are conducted between March to October to prepare for the demand in heating during winter, therefore, based on our Directors' past experience, we generally record lower sales of our ERW steel pipes and SSAW steel pipes from November to February. Save as disclosed, we generally record higher demands from our customers in the rest of the year.

LICENCES, PERMITS AND APPROVAL

As advised by our PRC Legal Adviser, our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group had obtained all necessary permits, licences and registrations required in all material respects under the applicable laws and regulations in connection with its business activities and all of them are in full force and effect.

As at the Latest Practicable Date, our Group had the following registrations and licences that are material to the business operations of our Group in the PRC:

Registration/Licences	Granted by	Granted to	Date of grant	Date of expiry
Manufacture Licence of Special Equipment of the People's Republic of China (中華人民共和國特種設備製造許可證 — 壓力管道元件)	State Administration for Market Regulation (國家市場監督管理總局)	Jinan Mech	30 April 2019	29 April 2023
Manufacture Licence of Special Equipment of the People's Republic of China (中華人民共和國特種設備製造許可證 — 壓力管道元件)	State Administrative for Market Regulation (國家市場監督管理總局)	Jinan Ma Steel	14 November 2018	20 November 2022
Registration Certificate of the Customs of the People's Republic of China for Customs Declaration Entities (中華人民共和國海關報關單位註冊登記證書)	General Administration of Customs, PRC (中華人民共和國海關總署)	Jinan Mech	26 January 2014	N/A
High and New Technology Enterprise (高新技術企業)	Department of Science & Technology of Shandong Province (山東省科學枝術廳), Shandong Province Finance Bureau, Shandong Provincial Tax Service, State Taxation Administration	Jinan Ma Steel	30 November 2018	29 November 2021
High and New Technology Enterprise (高新技術企業)	Department of Science & Technology of Shandong Province (山東省科學枝術廳), Shandong Province Finance Bureau, Shandong Provincial Tax Service, State Taxation Administration	Jinan Mech	28 December 2017	27 December 2020

RESEARCH AND DEVELOPMENT

Over the years, we have accumulated a certain level of technology experience on manufacturing of standard prefabricated pipe nipple and steel pipes according to the specifications given by our customers. As at 31 May 2019, we had 102 staff in our research and development team. Our Directors believe that our continuous research and development efforts have led to (i) the development of certain technological know-how which are patented with intellectual property offices in the PRC; and (ii) the recognition as a "High and New Technology Enterprise (高新技術企業)" by the relevant PRC governmental authorities and has been enjoying a preferential EIT of 15%.

As at the Latest Practicable Date, reflecting the research and development efforts of our Group, we have obtained 59 patents which include (i) 14 invention patents (發明專利); (ii) 40 utility models patents (實用新型專利); and (iii) five design patents (外觀專利). For further details, please refer to "Intellectual property" below.

During the Track Record Period, our Group had completed 71 research and development projects, which mainly aims to (i) improve product quality; (ii) expand our Group's product portfolio; and (iii) optimise our production process. In particular, Jinan Mech had conducted seven research and development projects on product development, which include the manufacturing of SSAW with various diameters, high resistance steel pipes and pipe nipples. The below table sets forth some of the major research and development projects completed during the Track Record Period:

No.	Category of research and development project	Research and development project	Description of the project	Duration of project	Investment amount *(RMB)* (approximately)
1.	Improve product quality	Steel pipe coating suspension system	The new coating system minimise labour coating process and automatise the coating process with our production equipment and thereby improving the coating quality of our steel pipes products	12 months	2.6
2.		Automated zinc coating system	The new zinc coating system minimise the impurities in the zinc and enhance the quality of our products	15 months	5.0
3.	Expand product portfolio	ERW steel pipe thread coupling	Based on the existing ERW steel pipe products coupled with three dimensional simulation and testing, our Group was able to manufacture high quality ERW steel pipe thread couple at lower costs	11 months	1.5
4.		Steel pipes for fire sprinkler system	When the sprinkler is exposed to sufficient heat, the heat-sensitive element releases, allowing water to flow from the sprinkler and at the same time trigger the alarm system	14 months	1.4
5.	Optimise production process	Automated process for outlet products	The project increase the efficiency of our production process in relation to our outlet products and minimise labour work	16 months	3.3
6.		Automated separation of finished products and residual materials	The improved process can automatically separate the finished products from the residual raw materials and thereby protecting the finished products from damage and contamination	11 months	2.6

For the three years ended 31 December 2018 and the five months ended 31 May 2019, the research and development expenditures incurred by our Group amounted to approximately RMB21.9 million, RMB33.8 million, RMB50.0 million and RMB17.6 million, respectively, which was composed of cost of materials, staff costs, utilities, depreciation and others.

INTELLECTUAL PROPERTY

We have put efforts on the protection of our intellectual property rights from infringement and misappropriation by third parties, however, there may be unauthorised attempts to use and obtain our intellectual property. In the event of a successful claim of infringement and our failure or inability to protect our intellectual properties, we may face a damage to our reputation and may also adversely affect our operations.

As at the Latest Practicable Date, we had registered trademarks and patents in the PRC and one registered trademark in Hong Kong. Details of our intellectual property rights, which are material to our business and operations, are set out in "Statutory and general information — B. Further Information about our Business — 2. Intellectual property rights of our Group" in Appendix IV to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material intellectual property claims against us or experienced any dispute in relation to the infringement on our intellectual property rights. Our Directors believe that we have taken reasonable measures to prevent infringement of our intellectual property rights.

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned land use rights for three parcels of land in Pingyin County, Jinan, Shandong Province. The following table sets forth a summary of the land use rights we owned:

Location (Situated on)	Registered owner	Area *(sq.m.)*	Usage
Yexiangou Village, Meigui Town, Pingyin County, Jinan, Shandong Province, PRC (中國山東省平陰縣玫瑰鎮野仙溝村)	Jinan Mech	232,655	Headquarters and production plant
West side of the middle section of Mei Gui Lu, Industrial Park, Pingyin County, Jinan, Shandong Province, PRC (中國山東省平陰縣工業園區玫瑰路中段西側)	Jinan Ma Steel	42,863	Production plant
West side of the middle section of Mei Gui Lu, Industrial Park, Pingyin County, Jinan, Shandong Province, PRC (中國山東省平陰縣工業園區玫瑰路中段西側)	Jinan Ma Steel	37,471	Production plant

All our owned properties are held for our own use. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As at 31 May 2019, no single property interest that forms part of non-property activities has a carrying amount of 15.0% or more of our total assets. Accordingly, this prospectus is exempt from compliance with the requirements under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance to include a property valuation report. Pursuant to Rule 5.01A of the Listing Rules, a prospectus is exempt from the requirement if the carrying amount of a listing applicant's non-properties are below 15.0% of its total assets. A similar exemption applies under section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, with respect of the requirement under section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance and paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

As at the Latest Practicable Date, we had the following leased property:

Location	Area *(sq.m.)*	Term of lease	Usage
Lot II-15, Road No. 10 Ho Nai Industrial Zone Ho Nai 3 Commune Trang Bom District Dong Nai Province Vietnam	3,842	Three years from 1 December 2018 to 30 November 2021	Production plant

MAJOR AWARDS AND CERTIFICATIONS

Our Group's achievement in the industry have been recognised and the table shows some of the major awards given to our Group:

Awards	Year	Issuing organisation
Belt and Road Model Enterprise* (一帶一路示範企業)	2019	Committee of Enterprise Leaders of the Greater Bay Area (大灣區首屆企業領袖峰會暨頒獎盛典組委員)
Outstanding Gazelle Company Award* (瞪羚企業)	2019	Department of Industry and Information Technology of Shandong Province
Most Influential Manufacturer of Gas Equipment* (燃氣行業產業聯盟網絡最具影響力燃氣物資設備製造商)	2018	China Cities Gas Resources Procurement Alliance* (中國城市燃氣物資採購聯盟)
Advanced Enterprise of Pingyin County* (平陰縣先進企業)	2017	People's Government of Pingyin County (平陰縣人民政府)

In recognition of our efforts, outstanding performance and quality of work, our Group has received the following certificates from professional accreditation organisations:

Certifications	Year	Description	Issuing organisation	Recipient	Expiry date
GB/T 2800-2011/ OHSAS 18001 : 2007	• 2017 • 2018	Certification for our submerged arc welding spiral steel pipe production conforms with international health and safety management standard	IQNET Association	• Jinan Mech • Jinan Ma Steel	• 27 March 2021 • 9 October 2021
GB/T 19001-2016/ ISO 9001:2015	• 2017 • 2018	Certification for our submerged arc welding spiral steel pipe production conforms with quality management system	IQNET Association	• Jinan Mech • Jinan Ma Steel	• 2 March 2021 • 19 October 2021
GB/T24001-2016/ ISO 14001:2015	• 2017 • 2018	Certification for our submerged arc welding spiral steel pipe production conforms with environmental management system	IQNET Association	• Jinan Mech • Jinan Ma Steel	• 5 June 2020 • 19 October 2021

EMPLOYEES

As at 31 May 2019, we had 826 employees, 747 of whom were in the PRC and 79 of whom are located in Vietnam. A breakdown of our employees by functions is set forth below:

	As at 31 May 2019	
Function	**PRC**	**Vietnam**
Managerial, administrative and accounts	42	4
Production	474	69
Quality control	31	4
Procurement and inventory	28	2
Research and development	102	—
Sales and marketing	70	—
Total number of employees	747	79

Remuneration

Our Group's employees are generally remunerated by way of fixed salary and commission will be awarded to our sales and marketing staff if they have achieved certain sales targets. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our Group's employees are also entitled to a performance-based bonus, paid leave and various subsidies.

Relationship with employees and recruitment policies

We recruit employees based on a number of factors such as their working experience, educational background and vacancy needs. Our Directors believe that our Group's management policies, working environment, employee development opportunities and employee benefits have together contributed to good employer-employee relations and successful employee retention. Our Directors consider that we have maintained good relationships with our employees. We have not experienced any significant problems with our employees or any disruptions to our operations due to labour disputes nor have we experienced any difficulties in the recruitment or retention of experienced staff or skilled personnel during the Track Record Period and up to the Latest Practicable Date.

Employee training

We believe that the quality of our employees, existing or future, is of essence to our business and operation and hence, a crucial asset of our Group. Therefore, we place great emphasis on staff retention by cultivating a safe, healthy and conducive working environment within our organisation. Further, we place great emphasis on providing a pleasant working environment for our employees; and identifying employee performance improvement opportunities for career advancement.

In order to increase the overall competitiveness of our Group's workforce and to attract and retain existing employees and strengthen their knowledge, skill level and quality, our Group places strong emphasis on training employees. We provide trainings across different operational functions, including induction training for new employees, functional training to provide our employees with the necessary skills and knowledge of their respective work areas and other on-the-job trainings to reinforce functional training.

Social welfare scheme and housing provident funds

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), we are required to make social insurance fund contributions for its employees in the PRC. As at the Latest Practicable Date, we maintained a social insurance scheme that covers basic pension insurance, unemployment, work-related injuries, medical and maternity expenses for our PRC employees. We are also required under the Administrative Regulations on the Housing Provident Fund of the PRC (住房公積金管理條例) to deposit housing provident funds to its employees in the PRC. During the Track Record Period and up to the Latest Practicable Date, we maintained a provident fund account. For details of the relevant laws and regulations on social welfare scheme and housing provident funds, please see "Regulatory Overview".

During the Track Record Period, we were not in full compliance with the relevant laws and regulations in relation to the social welfare scheme and housing provident funds. For details of the non-compliance, please see "Legal proceedings and compliance" below.

Dispatch staff

During the Track Record Period, we utilised and engaged dispatched staff. Given the relatively high turnover rate of labour in the manufacturing industry, we believe the engagement of dispatched staff for temporary, auxiliary and substituting positions can enhance efficiency and flexibility to cope with the rapid business expansion in recent years.

Pursuant to the Interim Provisions on Labour Dispatch* (《勞務派遣暫行規定》) which came into effect on 1 March 2014, "if the number of dispatched staff utilised by an employer exceeds 10% of the total number of its workers prior to the effective date of these Provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within two years from the effective date of these Provisions". As at 31 December 2016, 2017 and 2018, (i) Jinan Mech had engaged 287, 66 and nil dispatched workers; and (ii) Jinan Ma Steel had engaged 42, six and nil dispatched workers respectively, representing approximately 39.8%, 8.7% and nil and 35.0%, 5.8% and nil of the total number of its workers as at the corresponding date, respectively. Both Jinan Mech and Jinan Ma Steel had exceeded the regulatory threshold of 10% of the total number of their respective workers for the year ended 31 December 2016.

The following table sets forth the number of dispatched staff engaged by our Group as at 31 December 2016 and 2017:

Function	**31 December 2016**	**31 December 2017**
Production	328	71
Procurement and inventory	1	1
Total number of employees	329	72

According to our PRC Legal Adviser, the labour authorities may impose a fine between RMB5,000 and RMB10,000 per dispatched staff that violates the relevant laws and regulations and refuses to rectify the violation after being ordered to do so by the labour authorities. During the Track Record Period and up to the Latest Practicable Date, there is no pecuniary penalty against Jinan Mech and Jinan Ma Steel. To rectify the non-compliance, we have entered into labour contracts with all employed staff and as at 31 March 2019 and there were no dispatched contract workers. As such, our PRC Legal Adviser is of the view that the possibility of an administrative fine imposed on us for exceeding the required percentage of dispatched contract workers under the Interim Provisions on Labour Dispatch during the Track Record Period is relatively low.

LEGAL PROCEEDINGS AND COMPLIANCE

We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. Neither we nor any of our Directors is currently a party to any material legal, arbitral or administrative proceedings. We are not aware of any threat of, any claims or any legal, arbitral or administrative proceedings, which, in our opinion, is likely to have a material adverse effect on our business, financial condition or results of operations.

The following table sets forth our material non-compliance incident under the relevant PRC laws and regulations during the Track Record Period:

Non-compliance incident	Reasons for non-compliance	Potential maximum penalties	Remedial actions and status as at the Latest Practicable Date
We did not (i) provide full social insurance contributions; and (ii) register within the time limit prescribed and provide full contribution for the housing provident fund for our PRC employees, in compliance with applicable laws and regulations in the PRC during the Track Record Period. We estimated that the amount of social insurance contributions and housing provident fund contributions that we underpaid for the years ended 31 December 2016, 2017 and 2018 was (i) approximately RMB1.4 million, RMB3.6 million and RMB4.0 million, respectively, with respect to social insurance contributions; and (ii) approximately RMB0.3 million, RMB0.7 million and RMB0.7 million, respectively, with respect to housing provident fund contributions.	The non-compliance incident was primarily due to the staff who were in charge of these matters being unfamiliar with the relevant regulatory requirements.	Article 86 of the Social Insurance Law of the PRC requires that any employer who fails to make social security contributions in full or on-time shall be ordered by the competent bodies responsible for collecting social security fees to make or make up payments in a specified timeframe and charged a 0.05% daily late fine for each day since the overdue date. If payment is not made within the specified period, a fine ranging from one to three times the amount of overdue payment will be imposed by the competent administrative body. Article 37 of the Regulations concerning the Administration of Housing Fund requires that any employer who, in violation of the provisions therein, fails to register or set up accounts of housing provident fund for its employees shall be ordered by the housing provident fund management centre to make such registration or set up such account within a specified timeframe. If it is not rectified within the specified period, a fine of not less than RMB10,000 and not higher than RMB50,000 will be imposed. Article 38 of the Regulatory requires that any employer who, in violation of the provisions therein, fails to make housing provident fund contributions on time or in full shall be ordered by the housing provident fund management centre to make such contributions within a specified timeframe. If such payment is not made within the specified period, an application may be made to the People's Court of the PRC for enforcement. According to the written confirmation issued by the Human Resources and Social Security Bureau of Pingyin County, it is very unlikely that we will face any order for payment (including any late fines) or investigations and penalties in relation to payment of social security contribution. We will not be imposed any administrative penalties for delaying the registration of social insurance and the obtaining of social insurance registration certificate or failing to make social insurance contributions for all eligible employees in compliance with the requirements of laws and regulations. According to the written confirmation and interview with the Jinan Housing Provident Fund Management Centre which confirmed that, (i) we have not been penalised in relation to the payment of housing provident fund during the Track Record Period; and (ii) it would not initiate any request or impose any fines in relation to the housing provident fund contributions.	We have obtained written confirmations from the relevant competent governmental authorities confirming that none of those subsidiaries had been penalised for violation of PRC laws with respect to social insurance contributions and housing provident fund contributions during the Track Record Period. Based on the written confirmations issued by Human Resources and Social Security Bureau of Pingyin County and the interview with Jinan Housing Provident Fund Management Centre, both of whom are the competent authorities, our PRC Legal Adviser advised that the possibility of the competent authorities imposing administrative fines or initiating any payment request (including any late fines) of the corresponding social insurance contributions and housing provident fund contributions during the Track Record Period is relatively low. As at Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant government authorities with respect to this incident, nor had any order been received by our Group to settle the outstanding amount of social insurance or housing provident fund contributions. We are not aware of any employees complaints or demand for payment of social insurance contributions and housing provident fund contributions, nor had we involved in any disputes in this regard.

Non-compliance incident	Reasons for non-compliance	Potential maximum penalties	Remedial actions and status as at the Latest Practicable Date
			Our Directors have undertaken to use their best endeavors to comply with the applicable laws and regulations. As at the Latest Practicable Date, we have made social insurance contributions and housing provident fund contributions for all of our employees. Our Controlling Shareholders have undertaken to indemnify any liabilities or losses arising from this non-compliance incident.

Our Directors are of the view that the non-compliance incident would not have any material adverse impact on our operation or financial position due to the following reasons:

(i) We have interviewed or obtained written confirmations from competent authorities, stating that all of our PRC subsidiaries had not been penalised or demanded to take any remedial actions;

(ii) We are not aware of any employees' complaints or demands for payment of social insurance contributions or housing provident fund contributions, nor had we been involved in any disputes in this regard; and

(iii) Our Controlling Shareholders have agreed to indemnify us against any liabilities or losses arising from the non-compliance incident.

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, save as disclosed on the above, we had complied with the relevant PRC laws and regulations in all material respects.

INTERNAL CONTROL

We endeavour to uphold the integrity of our business by maintaining an internal control system into our organisational structure. Our internal control system and procedures are designed to meet our specific business needs and to minimise our risk exposure. In preparation of the Listing, we engaged an independent internal control consultant (the "**Internal Control Consultant**") to perform a review over a selected areas of our internal control procedures. The review covers our entity level controls and business process level controls. At entity level, the Internal Control Consultant reviewed our control environment, risk assessment and management, control activities, information and communication, and monitoring. At business process level, the areas reviewed include sales, accounts receivable and collection, procurement, accounts payable and payment, inventory management, production and costing, human resources and payroll, property, plant and equipment, cash and treasury management, financial reporting and disclosure controls, taxation, IT general controls, insurance management and intellectual property management. The Internal Control Consultant conducted an internal control review in December 2018 (the "**Internal Control Review**") and identified findings and made recommendations to us to enhance our internal controls and corporate governance practices.

The more significant recommendations (the "**Significant Recommendations**") identified by the Internal Control Consultant include: (i) the need to make full social insurance contribution payments and housing provident fund in accordance with relevant PRC laws and regulations during the Track Record Period; (ii) the need to implement written policies to govern certain processes such as insurance policy management; and (iii) the need to implement written employee handbook to strengthen the controls over the conduct of employees.

The Internal Control Consultant conducted follow-up reviews in March 2019 to review the status of the management action taken by our Group to address the Significant Recommendations of the Internal Control Review (the "**Follow-up Review**"). We have adopted and implemented the recommendations provided by the Internal Control Consultant and therefore, the Internal Control Consultant did not have any further recommendation in the Follow-up Review. Based on the result of the Follow-up Review, our Directors confirmed that we had adopted all of the internal measures and policies suggested by the internal control consultant and did not have any significant deficiencies in our internal control system as at the Latest Practicable Date.

In order to continuously improve our corporate governance, as well as to prevent recurrence of the non-compliance incidents as mentioned in "Legal proceedings and non-compliance" and/or other potential non-compliance matters, in addition to the preventive measures set out therein, we intend to adopt or have adopted the following measures:

- our Directors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal adviser prior to Listing. We will continue to arrange various trainings to be provided by the legal adviser engaged by us from time to time and/or any appropriate accredited institutions to update our Directors, senior management and relevant employees on the relevant laws and regulations;

- our Group appointed a company secretary to oversee and handle the company secretarial matters and day-to-day compliance matters of our Group. Our Directors believe that our Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see to "Directors and Senior Management" for further details;

- we have engaged Fortune Financial Capital Limited as our compliance adviser upon Listing to advise us on regulatory compliance with the Listing Rules;

- our Group established the Audit Committee which will implement formal and transparent arrangements to apply financial reporting and internal control principles in accounting and financial matters to ensure compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts. It will also periodically review our compliance status with the Hong Kong laws after Listing; and

- As at 31 May 2019, we had more than 320 customers, most of which are located in the PRC and the rest are spread across over 35 overseas countries around the globe. We are subject to risk that we may be deemed to violate International Sanctions laws in the future. To protect the interests of our Group and our Shareholders, we have adopted enhanced internal control measures in this respect, including (i) appointing a designated person, namely our overseas customer account manager, responsible for identification of sanction risks; (ii) conducting review and comparison of the customer's name and delivery location in each of our sale order against the relevant lists of Sanctioned Countries and Sanctioned Persons prepared and updated by our external legal counsel before selling to such customer; (iii) consulting, and on as-need basis, our external international legal advisers and requesting for training programmes relating to the International Sanctions laws to our Directors, senior management and other relevant personnel, including the aforesaid designated person, to assist them in evaluating potential sanctions risks identified in our daily operations; (iv) obtaining from our external international legal advisors the current list of Sanctioned Countries and Sanctioned Persons and disseminating such information to our employees.

Based on the implementation of the enhanced internal policies and remedial actions, our Group's business nature and operation scale, our Directors are of the view that (i) our Group's internal control measures are adequate and effective to prevent the recurrence of the non-compliance incidents; (ii) our Group has adequate and effective internal control procedures in place; and (iii) the aforementioned non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules or the suitability of our Company for listing under Rule 8.04 of the Listing Rules. Taking into consideration of the above enhanced internal policies and remedial actions, when adopted effectively and implemented, the Sole Sponsor concurs with our Directors' view in such respect.

Based on a review and comparison of the relevant lists of Sanctioned Countries and Sanctioned Persons prepared and updated by our external legal counsel from time to time against the list of our customers to whom our export sales have been made during the Track Record Period and up to the Latest Practicable Date, to the best of knowledge, information and belief of our Directors, none of these customers appear on such lists of Sanctioned Countries and Sanctioned Persons. As such and having considered the aforesaid enhanced internal control measures relating to the International Sanctions laws, our Directors are of the view that the risks that our Company would be subject to material penalties under International Sanctions in connection with such export sales are low. For further details on the risks relating to the International Sanctions, please refer to "Risk Factors — Our business and results of operations may be adversely affected if any of our activities are alleged or determined to have violated International Sanctions, or if our Company becomes subject to International Sanctions, or if our Company alters its activities to reduce risks of violating International Sanctions."

ENVIRONMENTAL MATTERS

The major pollutants generated by our Group in the manufacturing process include various kinds of exhaust gas and wastewater which could be dangerous to human body or carcinogenic. These wastewater is processed by our treatment facilities before it is discharged through our channels. Accordingly, we are subject to the relevant PRC and Vietnam environmental laws and regulations promulgated by both the state and local governments. We are required to adhere to the pollutant discharge standards, under which the amount of different kinds of heavy exhaust gas and wastewater discharge cannot exceed the prescribed levels. There have been various measures adopted by the government in supervising pollutant discharging enterprises, such as performing site visits on pollutant discharging enterprises to ensure the wastewater discharge meets the pollutant discharge standards and is within the approved discharge volume especially enterprises with the Pollutant Discharge License, as set out in the Administrative Measures for Pollutant Discharge Licensing (for Trial Implement) issued on 10 January 2018 and recently amended on 22 August 2019. For details, see "Regulatory Overview — Regulations Relating to Environmental protection".

To ensure our due compliance with the pollutant discharge standard (including different kinds of heavy exhaust gas and wastewater discharge) under the relevant PRC and Vietnam environmental laws, rules and regulations, we are implementing the following systems:

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

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

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

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

We are required to conduct an annual inspection on the pollutant discharge level and publish a report on environmental-related information (環境信息公開表). During the Track Record Period, we engaged independent testing companies to conduct the inspection for each of the three years ended 31 December 2018, and the result of our pollutant discharge level was in compliance with the relevant statutory standard. The table below sets forth the result of our pollutant discharge level during the Track Record Period:

Category	Pollutant	Targeted maximum annual level of emissions of our Group	Approved maximum annual level of emissions	Actual level of emissions of our Group for the year ended 31 December		
			(Note)	**2016**	**2017**	**2018**
		(ton)	*(ton)*	*(ton)*	*(ton)*	*(ton)*
Exhaust gas	Sulfur dioxide	1.593	1.593	0.685	0.249	0.318
	Nitrogen oxides	13.180	13.180	5.466	4.926	2.302
	Particulates	11.240	Not applicable	3.583	3.400	2.245
Wastewater	Chemical oxygen demand	2.035	Not applicable	1.252	0.177	0.276
	Ammonia nitrogen	0.204	Not applicable	0.014	0.029	0.190

Note: Our Group obtained the quota for annual level of emissions from Pingyin Environmental Protection Bureau*(平陰縣環境保護局).

However, in the event that the relevant pollutant discharge standard cannot be met, we will investigate the non-conformance, take rectification action in order to mitigate any negative environmental-related risk impact and initiate corrective and preventive action. Environmental impact assessments will be carried out prior to implementation of the corrective and preventive action to ensure that further occurrence of the situation or the creation of a new situation is prevented by identifying and dealing with the root causes. Our Directors and senior management will evaluate our performance on due compliance with the pollutant discharge standard and our governance around the environmental-related risks from time to time.

For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, the costs of environmental compliance amounted to approximately RMB6.4 million, RMB5.5 million, RMB4.3 million and RMB1.8 million, respectively, which primarily comprises (i) acquisition of relevant machinery and equipment; (ii) and miscellaneous costs. Our Directors consider that our costs of environmental compliance was significant higher in the two years ended 31 December 2017 which was mainly due to the capital investment in environmental-related machinery and equipment. While such machinery and equipment has been continuously used throughout the Track Record Period and will continue to be used in the future, our Directors consider, which the Sole Sponsor concurs, that our costs of environmental compliance will be comparable with the year ended 31 December 2018 and the five months ended 31 May 2019 and will be consistent with our scale of operation and such costs did not and will not have any material impact on our Group's business, strategies and financial performance during the Track Record Period and going forward.

During the Track Record Period, we did not have any material breaches of environmental protection standards causing material adverse impact on our business operations and financial conditions. However, our Group will continue to enhance our ability in meeting any possible future tightening in the pollutant discharge standards.

To the best knowledge of our Directors, we had no material non-compliance or violations of environmental protection laws and regulations that would materially and adversely affect our business operations and financial conditions. Notwithstanding that we have effective measures on controlling and monitoring exhaust gas and wastewater discharge, our operations are subject to the increasingly stringent regulatory requirements on environmental protection. Please refer to "Risk Factors — Risks relating to the industry in which we operate — Our business operations are subject to various environmental, health and safety laws and regulations and we may fail to control the costs associated with more stringent standards of these laws and regulations" for the risks in association with our ongoing compliance with, among others, environmental protection laws and regulations.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to the operation of our businesses, including strategic, operational, financial and legal risks. Our risk management policy sets forth procedures to identify, analyse, categorise, mitigate and monitor various risks.

Our Board is responsible for overseeing the overall risk management system and assessing and updating our risk management policy on a quarterly basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

Key risks relating to our business are set out in the section headed "Risk Factors" in this prospectus. The following sets out the key measures adopted by our Group under our risk management and internal control systems for managing the more particular operational and financial risks relating to our business operation:

(i) *Risk of potential inaccurate costs estimation and cost inflation:* Please see "Pricing and payment terms" above.

(ii) *Risk of global economy:* Please see "Trade tension between the United States and the PRC" above.

(iii) *Quality control system:* Please see "Quality assurance" above.

(iv) *Risk of possible failure, damage or loss of machinery:* Please see "Machinery and equipment — Repair and maintenance" above.

(v) *Health and safety system*: Please see "Occupational health and safety" above.

BOARD OF DIRECTORS

Our Board consists of seven Directors including four executive Directors and three independent non-executive Directors. Our Board is responsible for and has general power for the management and conduct of our business. The following table sets forth certain information regarding our Board:

Name	Age	Position(s) at our Company	Date of appointment as Director	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Director(s) and the senior management
Kong Linglei (孔令磊)	45	Chairman and executive Director	1 February 2019	15 May 2013	Presiding over our Board and responsible for the overall business direction of our Group. He is the chairman of the Nomination Committee and a member of the Remuneration Committee	N/A
Guo Lei (郭雷)	41	Executive Director and general manager	6 May 2019	15 October 2016	Responsible for the day-to-day operation and management of our Group	N/A
Xu Jianjun (徐建軍)	57	Executive Director	6 May 2019	19 November 2016	Responsible for the management and operation of Vietnam Piping	N/A
Yang Shufeng (楊書峰)	47	Executive Director	6 May 2019	15 May 2013	Responsible for overseeing sales and marketing in the PRC	N/A
Liu Fengyuan (劉鳳元)	48	Independent non-executive Director	19 November 2019	19 November 2019	Supervising and providing independent judgement on the operation and management to our Board. He is a member of the Audit Committee, Remuneration Committee and Nomination Committee	N/A
Ding Xiaodong (丁曉東)	53	Independent non-executive Director	19 November 2019	19 November 2019	Supervising and providing independent judgement on the operation and management to our Board. He is the chairman of the Audit Committee	N/A
Ma Changcheng (馬長城)	58	Independent non-executive Director	19 November 2019	19 November 2019	Supervising and providing independent judgment on the operation and management to our Board. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee	N/A

Executive Directors

Kong Linglei (孔令磊), aged 45, is the Chairman and an executive Director. He is the founder and the chairman of Jinan Mech since May 2013 and is a director of Jinan Ma Steel since June 2007. He was appointed as our Director in February 2019 and redesignated as an executive Director in May 2019. He is primarily responsible for presiding over our Board and responsible for the overall business direction of our Group.

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

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

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

Guo Lei (郭雷), aged 41, is an executive Director and the general manager of our Company. He joined our Group in October 2016 and was subsequently appointed as a director, general manager and legal representative of Jinan Mech and the chairman of Jinan Ma Steel in November 2016. He was appointed as an executive Director in May 2019. He is primarily responsible for the day-to-day operation and management of our Group.

Mr. Guo has over 20 years of experience in the pipe and foundry industries. Prior to joining our Group, from November 1998 to October 2016, he served various positions in Meide, and his last position was deputy general manager, where he was responsible for overseeing the business of the management department, innovation department and IT department.

Mr. Guo graduated from Shandong Province Mechanical Industrial School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a thermal treatment of metal diploma in July 1998.

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

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

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

Yang Shufeng (楊書峰), aged 47, is an executive Director. He joined Jinan Ma Steel since March 2002 and has been a sales manager since March 2008. He subsequently joined Jinan Mech in May 2013 and has been a deputy general manager since October 2015. He was appointed as an executive Director in May 2019. He is primarily responsible for overseeing sales and marketing team of our Group in the PRC.

Mr. Yang has over 10 years of experience in sales and marketing, pipe manufacturing and production management. Prior to joining our Group, he served at Meide as a marketing officer from May 1995 to March 2002.

Mr. Yang graduated from Shandong TV University (山東廣播電視大學), the PRC, with a bachelor's degree in marketing in July 1995.

Independent Non-executive Directors

Liu Fengyuan (劉鳳元), aged 48, was appointed as an independent non-executive Director on 19 November 2019. He is primarily responsible for supervising and providing independent judgement on the operation and management to our Board. He has over 10 years of experience in finance education. He has been a professor specialising in financial regulations and a doctoral adviser at the School of International Finance and Laws of the East China University of Political Science and Law (華東政法大學) since February 2006. He also serves as an independent director of various companies listed on other stock exchanges:

Company	Stock Exchange	Stock Code	Principal business in the PRC	Term of appointment
Suzhou Kingswood Printing Ink Co., Ltd (蘇州科斯伍德油墨股份有限公司)	Shenzhen Stock Exchange	300192	Manufacturing and sales of ink	September 2013 to present
Shanghai Material Trading Co., Ltd (上海物資貿易股份有限公司)	Shanghai Stock Exchange	600822	Developing, manufacturing and sales of smart identification terminals and industry application software	October 2014 to present

Mr. Liu graduated from Chongqing Normal University (重慶師範大學), the PRC, with a bachelor's degree in mathematics education in July 1994. He received his master's degree in science from Yunan University (雲南大學), the PRC, in July 1997 and obtained his doctoral degree in business administration (management) from Shanghai Jiao Tong University (上海交通大學), the PRC, in October 2005.

Ding Xiaodong (丁曉東), aged 53, was appointed as an independent non-executive Director on 19 November 2019. He is primarily responsible for supervising and providing independent judgement on the operation and management to our Board. He has over 20 years of experience in accounting and finance education. He has been teaching at the Shandong University of Finance (山東財經學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) since June 1988, and his current position is an associate professor in accounting. He served/is currently serving as an independent director of various companies listed on other stock exchanges:

Company	Stock Exchange	Stock Code	Principal business in the PRC	Term of appointment
Huilu Ecological Technology Group Co., Ltd.* (匯綠生態科技集團股份有限公司)	National Equities Exchange and Quotations	400038	Landscape planning and environmental protection	December 2014 to present
Ningbo Borine Electric Appliance Co., Ltd (寧波博菱電器股份有限公司)	National Equities Exchange and Quotations	873083	Manufacturing and distribution of electric appliances	August 2017 to present
CNPC Capital Company Limited (中國石油集團資本股份有限公司)	Shenzhen Stock Exchange	000617	Developing, manufacturing and marketing of internal combustion engines	December 2011 to April 2017
Synthesis Electronic Technology Co., Ltd (神思電子技術股份有限公司)	Shenzhen Stock Exchange	300479	Developing, manufacturing and sales of smart identification terminals and industry application software	August 2014 to August 2017
Grehar Landscape CO., LTD (光合園林股份有限公司)	National Equities Exchange and Quotations	832657	Tourism planning, landscape planning and infrastructure investment	From October 2014 to October 2017
Qingdao Hiron Commercial Cold Chain Co., Ltd (青島海容商用冷鏈股份有限公司)	Shanghai Stock Exchange	603187	Research and development, production, sale, and service of commercial cold chain equipment	June 2015 to June 2018

Mr. Ding graduated from the Central University of Finance and Economics (中央財經大學), the PRC with a bachelor's degree in Economics in June 1988 and received his master's degree in management from the Dongbei University of Finance and Economics (東北財經大學), the PRC in June 1999.

Ma Changcheng (馬長城), aged 58, was appointed as an independent non-executive Director on 19 November 2019. He is primarily responsible for supervising and providing independent judgement on the operation and management to our Board. He has over 30 years of experience in supervising and managing technology and safety work. From September 1989 onwards, he served at the China Gas Association (中國城市燃氣協會), a Chinese association that aims to facilitate gas development in the PRC, where he began his career the technical cadre division of the association, and then served as the deputy secretary of the association and he currently serves as the deputy secretary general of the association, and he was responsible for assisting in the work of the safety committee of the association.

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

SENIOR MANAGEMENT

Our senior management team is responsible for the day-to-day management and operation of our business. The following table sets forth certain information regarding the members of our senior management team:

Name	Age	Position at our Company	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Director(s) and the senior management
Tian Mingze (田明澤)	48	Chief of SSAW steel pipe production	19 November 2016	Production management at Jinan Ma Steel	N/A
Fang Xingjun (方興軍)	51	Chief of ERW steel pipe production	15 October 2015	Production management at the steel pipe area of the factory	N/A
Wang Ning (王寧)	43	Chief of standard prefabricated pipe nipple products production	1 August 2018	Production management of the standard prefabricated pipe nipples	N/A
Zhang Ping (張平)	36	Deputy general manager (Overseas sales)	16 October 2016	Overseas sales of our Group	N/A
Liu Minghuai (劉明懷)	44	Deputy general manager (Finance)	1 March 2017	Overall management of the financial affairs of our Group	N/A

Tian Mingze (田明澤), aged 48, is the chief of SSAW steel pipe production of our Group. Mr. Tian began his career at Jinan Ma Steel as a procurement clerk in November 2001. He became the head of procurement and section chief of various departments at Jinan Ma Steel between 2001 to 2018. He joined our Group upon completion of the acquisition of Jinan Ma Steel in November 2016. He has been serving as the general manger and director of Jinan Ma Steel since November 2018 and December 2018 respectively. He was appointed as the chief of SSAW steel pipe production of our Group in May 2019 and he is responsible for production management at Jinan Ma Steel.

Mr. Tian has approximately 25 years of experience in pipe and foundry industries. Prior to joining our Group, he worked at Meide, and his last position was a sales representative from July 1994 to October 2011, where he was responsible for the sales of Meide's products.

Mr. Tian graduated from the Shandong Province Gongye School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a diploma in mechanical manufacturing in July 1994.

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

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

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

Wang Ning (王寧), aged 43, is the chief of standard prefabricated pipe nipple products production of our Company. He joined our Group as a deputy factory manager for standard prefabricated pipe nipple products production and section chief of the production department of Jinan Mech in August 2018, where he was responsible for factory production and management. He then became a factory manager for standard prefabricated pipe nipple products and section chief of the production department in December 2018. He was appointed as our Group's chief of standard prefabricated pipe nipple production in May 2019 and he is primarily responsible for the production management of production.

Mr. Wang has over 20 years of experience in pipe and foundry industries. Prior to joining our Group, he was a planning worker at Meide from November 1999 to July 2018, and his last position at Meide was a section chief of the production department, where he was responsible for pipe manufacturing and production work.

Mr. Wang graduated from Shandong Province Gongye School* (山東省機械工業學校) (currently known as Shandong Jianzhu University (山東建築大學)), the PRC, with a diploma in casting in July 1999.

Zhang Ping (張平), aged 36, is a deputy general manager (overseas sales) of our Company. He joined our Group as a general manager's assistant of Jinan Mech in November 2016 and subsequently became a deputy general manager in December 2018, where he was responsible for the sales and operation of the oversea market. He was appointed as our Group's deputy general manager (overseas sales) in May 2019 and he is responsible for the overseas sales of our Group.

Mr. Zhang has over 10 years of experience in overseas sales management. Prior to joining our Group, from September 2005 to November 2016, he worked in the import and export department of Meide as an officer, and his last position was a general manager of the import and export department where he is responsible, for Meide's overseas marketing.

Mr. Zhang graduated from Shandong Economics University* (山東經濟學院) (currently known as University of Finance and Economics (山東財經大學)), the PRC, with a bachelor's degree in international economics and trade in July 2004.

Liu Minghuai (劉明懷), aged 44, is the deputy general manager (finance) of our Company. He joined our Group as the financial director and the board's secretary of Jinan Mech in March 2017, where he was responsible for overseeing the our Group's financial and accounting management. He was appointed as our Group's deputy general manager (finance) in May 2019 and is primarily responsible for the overall management of the financial affairs of our Group.

Mr. Liu has over 20 years of experience in financial planning and management. Prior to joining our Group, from July 1999 to February 2017, he was the chief accountant and secretary to the board of (i) CNPC Jichai Power Equipment Company (中國石油集團濟柴動力有限公司), a company based in the PRC that develops, manufactures, and markets internal combustion engines, and (ii) Jinan Diesel Engine Company Ltd (濟南柴油股份有限公司) (currently known as CNPC Capital Company Limited (中國石油集團資本有限公司)), a company listed on the Shenzhen Stock Exchange (stock code: 000617), that principally engages in banking, financial leasing, trust and insurance businesses, where he was responsible for managing its financial affairs.

Mr. Liu graduated from Xi'an Shiyou University (西安石油大學), the PRC, with a bachelor's degree in accounting in July 1999.

COMPANY SECRETARY

Leung Wing Lun (梁穎麟), aged 37, was appointed as the company secretary of our Company on 2 April 2019. He has over 14 years of experience in providing professional corporate services. From July 2004 to August 2005, he worked as an assistant accountant in Hop Fung Group Holdings Limited (a company listed on the Stock Exchange, stock code: 2320), where he was responsible for its day-to-day accounting duties. From September 2005 to March 2006, he worked as a contracted assistant taxation officer at the Inland Revenue Department in Hong Kong, where he was responsible for initial tax assessment. From March 2006 to July 2011, he worked as a tax consultant at Thomas Lee & Partners Ltd, where he was responsible for accounting and taxation business advisory. In November 2010, he founded Superior Alliance Group Company Limited and he has been a director since then, where he was responsible for taxation advisory and company secretarial service. He is currently the company secretaries of various companies listed on the Stock Exchange, including Hang Yick Holdings Company Limited (stock code: 1894), a Hong Kong company specialising in design, manufacture, supply and installation of steel and metal products for construction projects in Hong Kong; and Da Sen Holdings Group Limited (stock code: 1580), a Hong Kong company principally engaged in the manufacturing and sales of plywood and biomass wood pellets, respectively.

Mr. Leung graduated from the City University of Hong Kong with a bachelor's degree in business administration majoring in accounting in November 2004. He has been a Hong Kong Certified Public Accountant since February 2010.

OTHER INFORMATION RELATING TO OUR DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in "Board of Directors", "Senior Management" and "Company Secretary" above, each of our Directors and the members of our senior management (i) had no other relationship with any Directors or members of our senior management as at the Latest Practicable Date; and (ii) did not hold any other directorship in listed companies in the three years prior to the Latest Practicable Date. See "Statutory and General Information — C. Further Information About Our Directors and Substantial Shareholders" in Appendix IV for further information about our Directors, including the particulars of their service contracts or letters of appointment and remuneration, and details of the interests of the Directors in the Shares (within the meaning of Part XV of the SFO).

Save as disclosed in "Board of Directors", "Senior Management" and "Company Secretary" above, each of our Directors and senior management members has confirmed that there are no other matters in respect of them are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there are no other information relating to his appointment that need to be brought to the attention of our Shareholders.

Save as disclosed in "Board of Directors", "Senior Management" and "Company Secretary" above, none of our Directors and senior management hold any other positions within our Group.

CORPORATE GOVERNANCE

We aim to achieve high standards of corporate governance which are crucial to our development and safeguard the interests of our Shareholders. To accomplish this, we will comply with the Corporate Governance Code after the Listing.

Board Diversity

Our Board has adopted a board diversity policy. Our Company is committed to achieving diversity and recognises and embraces the benefits of having a diverse Board to bring in innovation, fresh and broad business perspectives and enhance the decision-making process of our Board. Our Board is of the view that having diversity in our Board will help our Company better understand and meet customer needs and maintain our Company's competitive advantages in the industry.

In considering the optimal composition of our Board, our Board shall exercise its discretion to review diversity from a wide array of perspectives, including but not limited to, professional qualifications, regional and industry experience, educational and cultural background, technical and professional skills, industry knowledge and reputation, gender, age, ethnicity, nationality, language skills, length of service and time to be devoted as a director, and where possible, maintain balance from such perspectives. Appointments to our Board should be made based on merits and the contributions that the individual is expected to bring to our Board, with due regard to the benefits of diversity in our Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, product development, accounting and financial management and corporate governance. They obtained degrees and prior work experience in various areas including business administration as well as and accounting and financial management. We have one independent non-executive Director with relevant accounting background. Our Board has a wide range of ages comprising members ranging from their 40s to 60s. We have taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the management levels. While we recognise that the gender diversity of our Board can be improved given its current composition of all male Directors, we will continue to apply the principle of appointments based on merits with reference to our board diversity policy. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

Our Nomination Committee is delegated by our Board to be responsible for compliance with our diversity policy and relevant codes governing board diversity under the Corporate Governance Code. Subsequent to the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness, and we will disclose in our corporate governance report about the implementation of the board diversity policy on an annual basis.

In recognising the importance of gender diversity of our Board, our Nomination Committee will use its best efforts, within three years from the Listing, to identify and recommend at least one suitable female candidate as our senior management or Director for our Board's consideration by the end of 2022, subject to our Directors (i) being satisfied with the competence and experience of the relevant candidate after a reasonable review of the necessary selection criteria in conjunction with the future development plan of our Group; (ii) satisfying their fiduciary duties to act in the best interest of our Company and our Shareholders and a whole when making the relevant appointment. Selection of candidates will be based on a range of diversity perspectives, including gender, age, culture, educational and background, ethnicity, regional and industry experience, skills and length of service. Such measurable objectives will be discussed and reviewed annually by our Nomination Committee for future Director's candidate selection. Our Company will continue to make efforts to retain, train and recommend suitable female candidates to our Board to improve gender diversity of our Board. The ultimate decision on Directors' appointment will be based on merit and contribution that selected candidates will bring to our Board.

Audit Committee

We have established an Audit Committee with written terms of reference in compliance with the Rule 3.21 of the Listing Rules and the Corporate Governance Code. The Audit Committee consists of three members, namely Ding Xiaodong, Liu Fengyuan and Ma Changcheng. Ding Xiaodong has been appointed as the chairman of the Audit Committee, and is the independent non-executive Director who possesses the appropriate professional accounting and related financial management expertise. The primary duties of the Audit Committee include, among other matters, to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, provide advice and comments to our Board, perform other duties and responsibilities as may be assigned by our Board and review and oversee the risk management of our Company.

Remuneration Committee

We have established a Remuneration Committee with written terms of reference in compliance with the Rule 3.25 of the Listing Rules and the Corporate Governance Code. The Remuneration Committee consists of three members, namely Ma Changcheng, Mr. Kong and Liu Fengyuan. Ma Changcheng, our independent non-executive Director, has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other matters, to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time-to-time.

Nomination Committee

We have established a Nomination Committee with written terms of reference in compliance with the Corporate Governance Code. The Nomination Committee consists of three members, namely Mr. Kong, Liu Fengyuan and Ma Changcheng. Mr. Kong, our Chairman and executive Director, has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, among other matters, to review the structure, size and composition of our Board on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship, ensure the diversity of our Board members, assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors.

WAIVER GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see "Waivers from Strict Compliance with the Listing Rules — Management Presence in Hong Kong".

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of fees, salaries, bonuses and other benefits in kind such as contributions to pension plans.

The aggregate remuneration (including fees, salaries, bonuses and other benefits in kind such as pensions) of our Directors incurred for the three years ended 31 December 2018 and the five months ended 31 May 2019 was approximately RMB1.0 million, RMB2.2 million, RMB2.3 million and RMB0.9 million, respectively.

Save as disclosed in note 6 of the Accountants' Report set out in Appendix I to this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors during the Track Record Period.

The aggregate amount of wages, salaries and bonuses and other benefits in kind such as pension costs of our Group's five highest paid individuals (including our Directors) incurred for the three years ended 31 December 2018 and the five months ended 31 May 2019 was approximately RMB2.0 million, RMB2.8 million, RMB3.0 million and RMB1.0 million, respectively.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any members of our Group.

Pursuant to the existing arrangements that are currently in force as at the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending 31 December 2019 is estimated to be approximately RMB2.9 million, in aggregate.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and will, following the Listing, receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

COMPLIANCE ADVISER

We have appointed Fortune Financial Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose 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
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Upon the completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), Ying Stone, which is wholly-owned by Mr. Kong as his investment holding company, will be interested in 39.788% of the enlarged issued share capital of our Company. As such, Mr. Kong and Ying Stone will be our Controlling Shareholders within the meaning of the Listing Rules.

Mr. Kong is our Chairman and executive Director. For details of the background of Mr. Kong, please see "Directors and senior management — Executive Directors". Ying Stone has not carried on any business since its incorporation.

DESCRIPTION ON MEIDE

Meide was established under the laws of the PRC as a limited liability company in January 1992 by Jinan Ma Gang Chang (濟南瑪鋼廠)(1) and United States Ha De Xun Co., Ltd (美國哈德遜有限公司)(2), which were Independent Third Parties holding as to 75% and 25% interest in Meide, respectively. In July 2012, Mr. Kong and 32 individuals (who were employees or ex-employees of Meide) obtained all of the equity interest in Meide. Subsequently, after certain transfer of equity interest among them and 10 of the individuals disposing of all their equity interest and immediately before the Track Record Period, Meide was held by (i) Mr. Kong as to 35.49%, and (ii) 22 individuals who were also the initial limited partners of Jinan Gong Chuang Meide(5) as to the remaining equity interest.

In August 2016, Mr. Kong established Ningbo Ming De as his investment holding company to which he transferred all his equity interest in Meide. As at Latest Practicable Date, Mr. Kong wholly-owns Ningbo Ming De, which in turn owns 35.49% of Meide. He currently also holds 6.50% limited partnership interest in Jinan Gong Chuang Meide and was appointed in January 2017 as the general partner of Jinan Gong Chuang Meide(3), which in turn owns 64.51% of Meide since August 2016. As such, he obtained control of Meide in January 2017. Prior to Mr. Kong's appointment as the general partner, Yu Ruishui (于瑞水) ("**Mr. Yu**")(4) had been the general partner of Jinan Gong Chuang Meide since its establishment in August 2016 and hence had control of Meide from August 2016 to January 2017(5).

Meide Group engages in business operations across different sectors, including, (i) manufacture and sale of malleable iron, ductile iron and bronze pipe fittings, malleable iron valves and malleable iron electric power fittings in the PRC ("**Pipe Fitting Products**"), (ii) production and sale of iron raw materials typically used in foundry industry, and (iii) financial investment (collectively, the "**Excluded Business**").

(1) Jinan Ma Gang Chang (濟南瑪鋼廠), a company established under the laws of the PRC on 23 May 1980, which ceased to hold any interest in Meide after July 2012.

(2) United States Ha De Xun Co., Ltd (美國哈德遜有限公司), a company established under the laws of New York State of the United States in 1988, which ceased to hold any interest in Meide after February 2012.

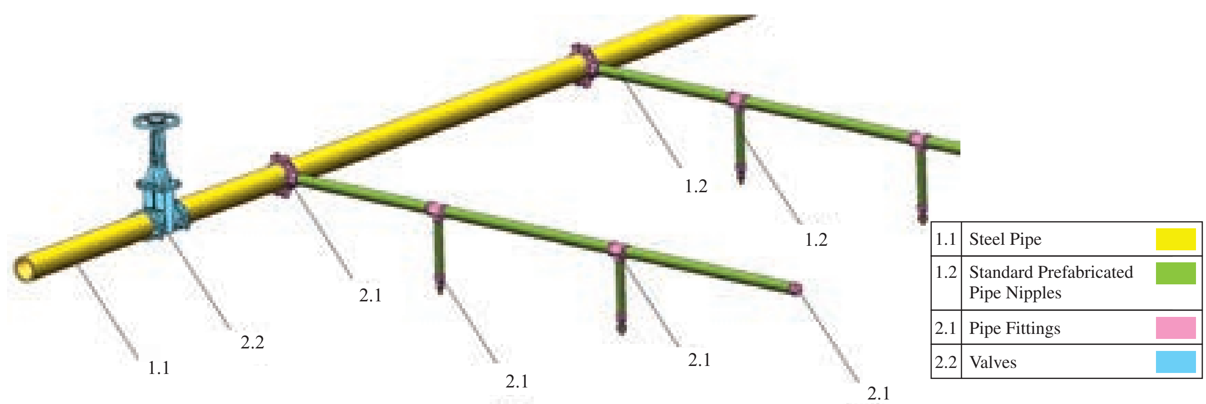
(3) Mr. Kong had no interest in Jinan Gong Chuang Meide upon its establishment and first acquired 3.03% limited partnership interest in Jinan Gong Chuang Meide in December 2016. Also, in its partners' meeting in December 2016, all of the partners unanimously approved and appointed Mr. Kong as the general partner, replacing Mr. Yu, with effect from January 2017. For further details, please refer to note (5) below.

(4) Mr. Yu joined Meide in 1993 and is currently a director and the general manager of Meide, he is also a shareholder holding as to 2.851% of Tong Chuang Sheng De BVI, a shareholder of our Company. Save as disclosed above, he has no family, business, financing and employment relationship with our Company and its subsidiaries, their directors, shareholders, senior management or any of their respective associates.

(5) 22 initial limited partners (who were employees or ex-employees of Meide and did not include Mr. Kong) established Jinan Gong Chuang Meide in August 2016, through which they held their interest in Meide mainly for the purpose of ease of administration, and appointed Mr. Yu as the general partner, having considered Mr. Yu's experience as the deputy manager of Meide responsible for its general affairs. Subsequently, in the all partners' meeting in December 2016, with a view to achieving better efficiency at Meide's shareholders' meetings, all of the partners unanimously approved and appointed Mr. Kong as the general partner, replacing Mr. Yu. From the beginning of the Track Record Period up to the establishment of Jinan Gong Chuang Meide in August 2016, 35.49% interest in Meide was held directly by Mr. Kong and the remaining interest was held by the aforesaid 22 individuals directly, each of whom held less than 14% interest in Meide and hence Meide had no majority shareholder who can control any resolutions at Meide's shareholders' meetings.

DELINEATION OF BUSINESS

Set out below is an illustration of a typical piping system:

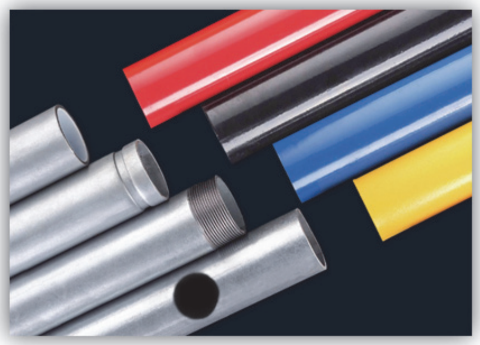
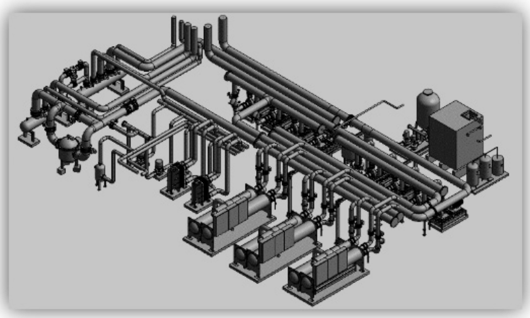


Our Board is satisfied that our Group's business operation is clearly delineated from the Excluded Business operated by Meide Group on the basis of the following:

Delineation by products

Set out below is an illustration comparing our products and Meide Group's Pipe Fitting Products as advised by Frost & Sullivan:

Our Group	Meide Group
Standard prefabricated pipe nipples	**Malleable iron/ductile iron/bronze pipe fittings**
Pipe nipple are short pieces of pipes with male threads on each end that can be connected with other fittings.	Pipe fittings are components mainly used in piping systems to (i) connect different straight pipes; (ii) change the direction of flow; and (iii) change the size of the pipes.
	
Steel pipe products	**Malleable iron gate/check/butterfly valves**
Steel pipe refers to a wrought tubular product made of steel, applied in the transportation of flowing material including but not limited to liquid, gas and slurries.	Valves are mechanical devices that control, regulates, and directs the flow and pressure of the fluid within a piping system.
(i) ERW steel pipes	
	
(ii) SSAW steel pipes	
	

Our Group	Meide Group
(iii) Customised steel pipes Customised steel pipes refer to steel pipes manufactured beyond general requirements of international standards, which are customised under specific requirements to satisfy customers' demand. This type of steel pipe is produced with value added processes, including but not limited to pipe body processing, non-standardised surface treatment, pipe end processing, thickened galvanisation, and internal smoothing.  **Design and supply of assembled piping systems** The design of assembled piping systems to satisfy customised requirements and typical application scenarios of customers. Our workflow generally involves (i) designing the piping system; (ii) manufacturing customised piping products with add-on treatment in accordance with customers' needs; and (iii) on-site installation of the piping system.  For details, please see "Business — Our Products".	**Malleable iron electrical power fittings** Electrical power fittings are components mainly used in electric power transmission systems to connect electric wires. 

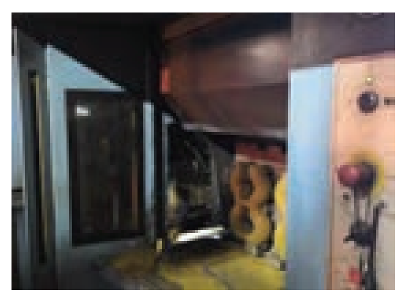
Having considered the above comparative illustration, our Directors consider that Meide Group's Pipe Fitting Products are clearly delineated from our products on the basis of the following:

- as shown in the above illustration, our products and Meide Group's Pipe Fitting Products generally have different form factors from each other;
- as advised by Frost & Sullivan, our products and Meide Group's Pipe Fitting Products are neither inter-replaceable nor substitutable with each other; please see "Industry Overview";
- our products can neither substitute nor replace any of Meide Group's Pipe Fitting Products in a typical piping system where our products generally cannot be used as:
  - (i) malleable pipe fittings as our products cannot be used to connect straight pipes, change the direction of flow or change the size of the pipes;
  - (ii) malleable valves as our products cannot be used to turn the pipes on and off; or
  - (iii) electric power transmission systems to connect electric wires; and
- Meide Group's Pipe Fitting Products can neither substitute nor replace any of our products in a typical piping system where their Pipe Fitting Products generally cannot be used as:
  - (i) steel pipes; or
  - (ii) pipe nipples as their Pipe Fitting Products cannot be connected with other fittings; and
- Meide Group is not engaged in the business of design and supply of assembled piping system.

Delineation by business operations

Set out below is a summary comparing our business operation and Meide Group's business operation in manufacturing their Pipe Fitting Products:

	Our Group	**Meide Group**
Industry:	Steel pipe industry	Foundry industry
Location of production facilities:	The production facilities of our Group and those of Meide Group are situated in different and separate locations in Pingyin, Jinan, the PRC. There is no sharing of production lines or manufacturing space between our Group and Meide Group.	
International standards:	**Pipe nipples:** ASTM A73 BS EN 10241 ASTM B687 **Steel pipes:** GB/T3091 ASTMA53 EN 10255 GB/T 28897 CJ/T136 GB/T9711 SY/T5037	**Pipe fittings:** ASME B16.3 BS EN 10241 **Valves:** ASTM A536, 65–45–12 **Electric power fittings:** GB 2314 IEC 120

	Our Group	Meide Group
Major steps and production facilities:	**Material feeding and cutting machinery** The process to cut pre-processed pipes or ERW steel pipes into required length.  **Welding production lines** The steel pipes are then fed into a high frequency welder which heats the edges of the strips to very high temperature which are then sealed together by welding. 	**Water-cooled cupola** Metals and other materials are put inside a water-cooled cupola to be melted into molten metal.  **Molding line** Compress molding sand into standard molds with hollow cavity of the desired shape. 

	Our Group	Meide Group
	Processing (threading) machine Threading machine is used to create threads at the end of pre-processed pipes or ERW steel pipes. 	**Casting machine** Pour molten metal into standard molds, the molten metal then cools down and solidifies during casting process.  **Tapping machine** Process which solidified metal are tapped to make threads. 

	Our Group	**Meide Group**
	The production technologies employed by our Group and Meide Group are different in all essential respects. These technologies, which required the use of different machineries, were used to manufacture products made from different raw materials. The technologies, expertise and production lines that each of our Group and Meide Group utilised could not be used to manufacture each other's products.	
Raw materials:	Steel coils, pre-processed pipes, zinc ingots and consumables	Iron, copper and scrap metal
Application by end-users:	HVAC/gas/water supply companies	Electricity/gas/fire/water supply companies
Membership in trade/industry association:	Member of the Steel Structure (Steel Pipe) Association	Member of the China Foundry Association

As shown in the above comparative summary, Meide Group's business operation in manufacturing Pipe Fitting Products and our business operation are substantially different in respect of (i) industries; (ii) production standards; (iii) major technologies and production facilities; (iv) raw materials; (v) major suppliers; (vi) applications by end-users; and (vii) trade/industry associations. Accordingly, our Directors consider that Meide Group's business operation in manufacturing Pipe Fitting Products is clearly delineated from our business operation.

Furthermore, our Group does not, and currently has no intention to, engage in any other Excluded Business, namely, (i) production of iron raw materials typically used in foundry industry; and (ii) financial investment. Our Group generally does not procure such iron raw materials for manufacturing of our products.

Taking the aforementioned delineation by products and business operations into account, our Directors consider that the Excluded Business is clearly delineated from our business and hence are of the view that Meide Group does not compete, and is not likely to compete, either directly or indirectly, with our business.

Except through our Group, none of the Controlling Shareholders or their close associates conducts any business that competes or is likely to compete, either directly or indirectly, with our business, which is subject to disclosure pursuant to Rule 8.10 of the Listing Rules. As at the Latest Practicable Date, our Directors have no plans to incorporate the Excluded Business into our Group as our Directors believe that by leveraging our expertise in the steel pipe industry, our Group would be able to achieve greater economies of scale and to further enlarge our market share in the steel pipe industry by focusing our human and financial resources and to increase efficiency in operations through automating and upgrading our existing production lines for the manufacturing of products that are made by strip steel, steel plate and brass. For details, please see "Business — Competitive strengths". Given the clear delineation between our business and the Excluded Business, and the non-competition arrangement between our Group and the Controlling Shareholders after Listing, our Board is satisfied that our business is and will continue to be independent from the Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and its associates after the completion of the Global Offering for the following reasons:

Operational Independence

Although our Controlling Shareholders will retain a controlling interest in our Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently. We do not rely on our Controlling Shareholders for our supply, business development, staffing, capital, equipment or marketing and sales activities upon Listing. We have independent access to suppliers and customers, an independent management team to handle our day-to-day operations. Save for the above, our Company (through our subsidiaries) holds or enjoys the benefit of all relevant assets and resources necessary to carry on our businesses.

Sales and marketing

We have independent sales and marketing team to maintain close contact with our customers to keep abreast of any change in our product mix and our evolving technical advancements in our manufacturing process. Furthermore, our sales and marketing staff will continue to attend large-scale trade fairs and exhibitions related to the standard prefabricated pipe nipples manufacturing and steel pipes manufacturing industry. Our sales and marketing team operates independent of and are located in our own premises, there is no sharing of financial and information technology system between our Group and Meide Group.

Day-to-day management

Our Group is managed by the directors or senior management on a daily basis, the details of such persons are set out in "Directors and senior management". Except for Mr. Kong, who is both the Chairman of our Company and the chairman of Meide, there is no overlapping of other directors and members of the senior management between our Group and Meide. For details, please see "Management Independence" below. Based on the above, our Directors are of the view that this management structure ensured independence of the daily management and operations of our Group from that of Meide Group.

Connected transactions with our Controlling Shareholders

During the Track Record Period, our Group has sold our products under both our own trademarks and the Meide trademarks. We have begun the necessary procedures to register our trademarks with competent trademark registration authorities since 2013 and our Directors have taken the prudent approach of using the Meide Trademarks in countries and regions which we have yet to register our trademarks so as to safeguard our Group's intellectual property rights and reduce the risk of trademark infringement actions in these countries and regions. We entered into the Trademark Licensing Agreement with Meide on 31 March 2019, pursuant to which Meide agreed to irrevocably grant the exclusive right to our Company (and its subsidiaries) to use the Meide Trademarks. For details, please see "Continuing Connected Transactions — 1. Trademark Licensing Agreement".

We have entered into certain transactions with Meide Group including sales of ERW steel pipe products and SSAW steel pipe products to Meide Group under both distributorship and direct sales channels during the Track Record Period. For details, please see "Business — Our transactions with Meide Group". Apart from acting as a distributor of our Company, Meide Group has no other distribution business during the Track Record Period and up to the Latest Practicable Date. We have entered into products purchase framework agreement to purchase products from Meide for our design and supply of assembled piping systems operation and products supply framework agreement for Meide's distribution and internal use with Meide. For details, please see "Continuing Connected Transactions — 2. Products Purchase Framework Agreement" and "Continuing Connected Transactions — 3. Products Supply Framework Agreement".

Save for the continuing connected transactions set out in "Continuing Connected Transactions", our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective associates upon or shortly after Listing. Thus, the existence of the continuing connected transactions which will be entered into during our Group's ordinary and usual course of business and on normal commercial terms, will not affect our operational independence from our Controlling Shareholders after Listing.

Based on the above, our Directors believe that we are able to operate independently from our Controlling Shareholders and their respective close associates.

Having considered the above, our Directors are satisfied that they are able to perform their roles in our Group independently, and our Group is capable to operate independently from our Controlling Shareholders after the Listing.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group had its own internal control, accounting and financial management system and function, independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs.

As at 31 December 2016, 2017 and 2018 and 31 May 2019, our unsecured other borrowings amounted to approximately RMB300.1 million, RMB300.7 million, RMB270.2 million and RMB170.2 million, respectively. The other borrowings represented the borrowings from Meide Group through two commercial banks. The remaining balance of the loans shall be fully repaid upon Listing. For details, please see Note 30 of the Accountants' Report set out in Appendix I and "Financial Information — Indebtedness — Borrowings".

Save as disclosed above, we have not entered into any financing arrangements or loans with Meide or any of its affiliates for our business operations.

As at 31 May 2019, as a result of transfer of the entire equity interest of Jinan Mech to Tube Industry Investments as part of our Reorganisation, our amount due to shareholders/former shareholders was RMB162.7 million (the "**Amount Due**"), out of which RMB86.0 million, RMB42.4 million, RMB10.0 million, RMB6.3 million and RMB18.0 million was due to Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP, respectively. All of the Amount Due was fully settled as at the Latest Practicable Date.

Pursuant to a loan agreement dated 14 October 2019 entered into by some of our shareholders, including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI (collectively, the "**Lenders**"), Tube Industry Investments (the "**Borrower**"), Guan Dao Investments and our Company, the Lenders lent RMB162.7 million (including RMB86.30 million, RMB35.08 million, RMB9.82 million, RMB5.95 million and RMB25.52 million from Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Chang De BVI and Tong Chuang Xing De BVI, respectively, calculated in proportion to their respective shareholdings in our Company as at the date of the agreement) as a loan to the Borrower to settle the Amount Due. The loan was unsecured and interest free, and was fully settled by the Borrower allotting and issuing 10,000 ordinary shares to Guan Dao Investments on 16 October 2019.

Save as disclosed above, we have not entered into any financial arrangements or loans with our Controlling Shareholders during the Track Record Period. Other than trade receivables and trade payables owing by or to the Controlling Shareholder which arise from on-going continuing connected transactions, there will be no amounts owing to or from the Controlling Shareholder from our Group at the Listing Date.

Management Independence

The following table presents the details of the Directors and senior management of our Group and their positions in Meide Group upon Listing:

Name	Position(s) held in our Group	Position(s) held in Meide Group
Kong Linglei (孔令磊)	Chairman and executive Director	Chairman
Guo Lei (郭雷)	Executive Director and general manager	None
Xu Jianjun (徐建軍)	Executive Director	None
Yang Shufeng (楊書峰)	Executive Director	None
Liu Fengyuan (劉鳳元)	Independent non-executive Director	None
Ding Xiaodong (丁曉東)	Independent non-executive Director	None
Ma Changcheng (馬長城)	Independent non-executive Director	None
Tian Mingze (田明澤)	Chief of SSAW steel pipe production	None
Fang Xingjun (方興軍)	Chief of ERW steel pipe production	None
Wang Ning (王寧)	Chief of standard prefabricated pipe nipple production	None
Zhang Ping (張平)	Deputy general manager (Overseas sales)	None
Liu Minghui (劉明懷)	Deputy general manager (Finance)	None

Board of Directors

Our Board comprises four executive Directors and three independent non-executive Directors. Our Directors are of the view that we are able to operate independently from our Controlling Shareholders notwithstanding that Mr. Kong is both the Chairman of our Company and the chairman of Meide Group for the following reasons:

(a) our executive Directors, supported by our experienced full-time senior management team, oversee the day-to-day management of our Group and are responsible for the operation of our Group's business;

(b) each of our Directors is fully aware of their fiduciary duties as Directors and will dedicate their time to the management of our Group;

(c) our Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates has a material interest and shall not be counted in the quorum present at the particular Board meeting; and

(d) Mr. Kong has undertaken that if a conflict of interest situation arises, he shall (i) not vote or be counted in the quorum of any resolution of the Board unless so authorised by the Articles, (ii) refrain from being present during the relevant discussions at Board meetings, and (iii) play no part in the decision-making process of the Board. Save for Mr. Kong, who is the chairman of Meide Group, none of the other executive Directors or senior management of our Group holds any position in Meide Group. Apart from the transactions set out in "History, Reorganisation and Corporate Structure" and "Continuing Connected Transactions", our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Senior Management

As confirmed by our Directors, save as in "Management Independence" above, there is no overlapping of directors and members of the senior management between our Group and the Controlling Shareholders or their close associates.

Interests in Competing Business

None of the Directors or our Controlling Shareholders is interested in any businesses which competes or is likely to compete, either directly or indirectly, with our Group's business and would require disclosure under Rule 8.10 of the Listing Rules.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and their respective close associates during the Track Record Period and will continue to operate independently.

We have entered into certain transactions with certain persons who will become our connected persons upon the Listing under the Listing Rules, the details of which are set out below. The transactions disclosed in this section will continue after the Listing and hence will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing.

(A) CONNECTED PERSONS

We have entered into transactions with Meide which will become our connected person upon the Listing:

- **Meide**

Mr. Kong is one of our Controlling Shareholders. As at the Latest Practicable Date, Mr. Kong was interested in 51.46% of the total issued share capital of our Company. Upon completion of the Capitalisation Issue and the Global Offering, Mr. Kong will be interested in 39.788% of the total issued share capital of our Company (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme). Mr. Kong will continue to be our Controlling Shareholder, and thus, our connected person as defined under Chapter 14A of the Listing Rules after the Listing. Mr. Kong wholly-owns Ningbo Ming De, which in turn owns 35.49% of Meide. He currently also holds 6.50% limited partnership interest in and was appointed in January 2017 as the general partner of Jinan Gong Chuang Meide, which in turn owns 64.51% of Meide from August 2016. As such, he obtained control of Meide in January 2017. Accordingly, Meide is an associate of Mr. Kong and therefore our connected person upon the Listing.

(B) SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Transactions	Applicable Listing Rule relating to the exemption	Waiver sought
Fully-exempt continuing connected transactions		
1. Trademark Licensing Agreement	14A.76(1)(a)	Not applicable
2. Products Purchase Framework Agreement	14A.76(1)(a)	Not applicable
Non-exempt continuing connected transactions		
3. Products Supply Framework Agreement	Not applicable	Yes

(C) CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions for our Company which will constitute continuing connected transactions for our Company upon Listing.

1. Trademark Licensing Agreement

Description of the Transaction

During the Track Record Period, our Group has sold our products under both our own trademarks and the Meide Trademarks (as defined below). Our Group recognises the importance of intellectual property rights protection and have begun the necessary procedures to register our trademarks with competent trademark registration authorities since 2013. Up to the Latest Practicable Date, we have registered our trademarks in 8 countries and regions, including Hong Kong. For details, please see "Statutory and General Information — B. Further Information about our business — 2. Intellectual property rights of our Group" in this prospectus. In anticipation of the Global Offering and to ensure that our Group will continue to be able to use the Meide Trademarks, on 31 March 2019, the Trademark Licensing Agreement was entered into between Meide and our Company pursuant to which Meide agreed to irrevocably grant the exclusive right to our Company (and its subsidiaries) the right to use the Meide Trademarks for our business operation globally for nil consideration for an initial term of 10 years commencing on the date of the Trademark Licensing Agreement and will be renewed automatically every 10 years from the initial expiry date to the extent permissible under the Listing Rules, relevant laws and regulations. The provisions in the Trademark Licensing Agreement provided for mutual termination by the parties and does not provide for unilateral termination by our Company or Meide.

Our Directors are of the view, which the Sole Sponsor concurs, that entering into the Trademark Licensing Agreement for a period longer than three years is a normal business practice for agreements of this type and beneficial to our Shareholders as a whole as (i) the relevant trademarks have benefitted our Group; and (ii) a longer duration of the licence term will promote stability in our operations.

Details of the trademarks that we licensed from Meide ("**Meide Trademarks**") are set forth below:

No.	Trademark	Place of registration	Registration No.	Registered Owner	Class	Registration Period
1.		PRC	3168257	Meide	6	28 July 2013 to 27 July 2023
2.		PRC	3168258	Meide	6	28 July 2013 to 27 July 2023
3.		PRC	8712168	Meide	6	14 October 2011 to 13 October 2021
4.		PRC	842523	Meide	11	28 May 2016 to 27 May 2026

Reasons for and benefits of the transaction

Continuing efforts have been made by our Group in registering our own trademarks in various countries since 2013. However, as we have customers that are spread across 35 overseas countries around the globe, our Directors have taken the prudent approach of using the Meide Trademarks in countries and regions which we have yet to register our trademarks before registration is completed so as to safeguard our Group's intellectual property rights and reduce the risk of trademark infringement actions in these countries and regions. For details of our Group's trademarks, please see "Statutory and General Information — B. Further Information about our business — 2. Intellectual property rights of our Group" of this prospectus. As such, Meide and our Group entered into the Trademark Licensing Agreement to ensure that our Group can continue to use the Meide Trademarks after the Listing. Our Directors are of the view that the Trademark Licensing Agreement has been arrived at after arms' length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole. Our Directors are of the view that our operational independence and administrative capabilities should not be affected by this trademark licensing arrangement because a part of our products are sold under our own trademarks and while we believe Meide Group has built significant brand recognition associated with the Meide Trademarks, our customers' demand for our products are driven by other factors that are associated with our strengths, including but not limited to our expertise in the industry. For details, please see "Business — Competitive Strengths". Even though our Group has been using Meide Trademarks when we trade with certain customers (which are located in countries or regions which we have yet to register our trademark), our Directors believe that our customers will be able to distinguish our products from the products of Meide as the products have distinct outlooks and utilities, and that they are not substitutable or inter-replaceable. For details, please see "Relationship with Controlling Shareholders — Delineation of Business".

Listing Rules Implications

As nil consideration is payable, the transactions under the Trademark Licensing Agreement fall within de minimis threshold as stipulated under Rules 14A.76(1)(a) of the Listing Rules and this transaction will be exempt from the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

2. Products Purchase Framework Agreement

Description of the Transaction

Parties: (a) Our Company (as purchaser); and

(b) Meide (as vendor).

On 22 November 2019, a framework products purchase agreement was entered into between our Company on behalf of the Group, as the purchaser and Meide on behalf of Meide Group, as the vendor, under which our Company agreed to purchase Meide products including pipe fittings, repair parts, valves and crafts as specified in the agreement to our Company (the "**Products Purchase Framework Agreement**"). The Products Purchase Framework Agreement will be effective for three years and may be renewed by our Company, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations. From the commencement of the Track Record Period and up to the end of 2017, our Group sourced raw materials and finished products from Meide Group, mainly including: (i) zinc ingots for the manufacturing of steel pipe products such as anti-corrosive treatment and coating for our ERW steel pipe products; and (ii) pipe fittings and valves for our newly commenced operation of design and supply of assembled piping systems since 2017. We also purchased small amount of materials on ad hoc basis for general use. Due to change in business operation model, while we continued to purchase pipe fittings and valves from Meide Group for our design and supply of assembled piping system operation, and purchase materials on ad hoc basis for general use, our Group began to source zinc ingots from the suppliers directly for use in our manufacturing of steel pipe products and ceased to purchase zinc ingots from Meide Group before the end of 2017.

Reasons for and benefits of the transaction

The reasons for entering into the Products Purchase Framework Agreement are as follows:

(i) given the established relationship between our Group and Meide, it is mutually beneficial economically for us to purchase raw materials and products from them; and

(ii) due to the difference in product specifications and order requirements from customers, we do not keep raw materials and products used for assembled piping system as inventory and only purchase required raw materials and products from our suppliers after we receive the customers' orders. Given the large scale of operation and range of products offered by Meide Group as well as the proximity of the operations of our Group and Meide Group, we are able to purchase products with different product specifications from Meide Group in satisfaction of our customers' requirements efficiently.

Our Directors are of the view that the Products Purchase Framework Agreement has been arrived at after arms' length negotiations and that the terms are fair and reasonable, on normal commercial terms or better and are in the interest of our Company and Shareholders as a whole.

Pricing Policy

The products will be priced on normal commercial terms and in the ordinary course of our business with reference to the market price of the same or comparable kind of pipe fittings, repair parts, values, and other crafts provided by Independent Third Parties in the vicinity areas. Before entering into any transactions with Meide Group, our Group will obtain quotes from at least two Independent Third Parties which provide the same or similar products in the vicinity areas. Our finance department will review and compare the quotes from Independent Third Parties with the quotes from Meide Group when determining the supplier so as to ensure that the price of the products provided by Meide Group to our Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favourable to our Group than the terms available from Independent Third Parties.

Payment and Price Review

To implement the transactions contemplated under the Products Purchase Framework Agreement, the relevant parties have entered or will enter into separate agreements which specify and record the specific terms, including payment, delivery terms and other operative provisions of those transactions determined in accordance with the Products Purchase Framework Agreement. The payables pursuant to the Products Purchase Framework Agreement are settled on a monthly basis.

The terms of the transactions contemplated under the Products Purchase Framework Agreement, including pricing and annual caps, will also be subject to review of our independent non-executive Directors in accordance with the requirements under the Listing Rules.

Historical purchase amount

The following table sets out the total purchase incurred by our Group pursuant to the Products Purchase Framework Agreement during the Track Record Period:

FY2016 *(RMB'000)*	**FY2017** *(RMB'000)*	**FY2018** *(RMB'000)*	**5M2019** *(RMB'000)*
—	33,073	1,237	237

Annual caps

FY2019 *(RMB'000)*	**FY2020** *(RMB'000)*	**FY2021** *(RMB'000)*
1,600	1,600	1,600

Bases and assumptions in estimating the annual caps

As we have only commenced our operation of design and supply of assembled piping systems in 2017, we plan to begin the process of sourcing new suppliers in the coming year. In arriving at the above annual caps, we have taken into account (i) the historical purchase amounts between our Group and Meide Group; (ii) the prevailing market price of the same or comparable products purchased by our Company in the ordinary and usual course of business; and (iii) the subsequent projected change in the demand for Meide's products on the assumption that the costs of raw materials and other overhead costs remain constant.

Should the actual annual purchase amount exceed the above proposed annual caps, our Company will revise the annual caps in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

Listing Rules Implications

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

3. Products Supply Framework Agreement

Description of the Transaction

Parties: (a) Our Company (as vendor); and

(b) Meide (as purchaser).

On 22 November 2019, a framework products supply agreement was entered into between our Company on behalf of the Group as the vendor and Meide on behalf of the Meide Group as the purchaser, under which our Company agreed to sell products including steel pipes, standard prefabricated pipe nipples, and other products as specified in the agreement to Meide (the "**Products Supply Framework Agreement**"). The Products Supply Framework Agreement will be effective for three years and may be renewed by our Company, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations.

Reasons for and benefits of the transaction

The reasons for entering into the Products Supply Framework Agreement are as follows:

(i) Meide Group has been distributing our products to its customers as one of our distributors; and

(ii) Meide Group has been purchasing our products for use internally, including but not limited to factory constructions, pipeline maintenance and use as raw materials.

The transactions contemplated under the Products Supply Framework Agreement is beneficial for the growth of our Group's business, as distribution through the sales channels of Meide will allow us to utilise the sizeable base of third-party customers and help increase the coverage and demand of our Group's products in the market. Moreover, given the established relationship between our Group and Meide, it is mutually beneficial economically for us to sell stable and sizable amount of standard prefabricated pipe nipple products and steel pipe products to satisfy Meide Group's customers' orders and their requirements and accommodate their growth.

Pricing Policy

The products will be price on normal commercial terms and in the ordinary course of our business with reference to the market price of the same or comparable kind of steel pipes, standard prefabricated pipe nipples provided to Independent Third Parties in the vicinity areas. Before entering into any transactions with Meide Group, our Group will take reference from at least two separate transactions of similar nature with Independent Third Parties in the vicinity areas. Our finance department will review and compare the relevant transactions with Independent Third Parties when determining the sale price so as to ensure that the price of the products provided by our Group to Meide Group is fair and reasonable, and is determined on normal commercial terms or on terms no less favourable to Meide Group than the terms available to Independent Third Parties.

Payment and Price Review

To implement the transactions contemplated under the Products Supply Framework Agreement, the relevant parties have entered or will enter into separate agreements which specify and record the specific terms, including payment, delivery terms and other operative provisions of those transactions determined in accordance with the Products Supply Framework Agreement. The payables pursuant to the Products Supply Framework Agreement are settled on a monthly basis.

The terms of the transactions contemplated under the Products Supply Framework Agreement, including pricing and annual caps, will also be subject to review of our independent non-executive Directors in accordance with the requirements under the Listing Rules.

Historical sales amount

The following table sets out the total sales incurred by our Group pursuant to the Products Supply Framework Agreement during the Track Record Period:

	FY2016	**FY2017**	**FY2018**	**5M2019**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
(i) for distribution	50,863	127,821	75,506	12,103
(ii) for internal use within Meide Group *(note 1)*	65,365	17,752	30,808	7,089

Note (1): Such historical sales amount include the sales of scrap metal.

Annual caps

	FY2019 *(RMB'000)*	FY2020 *(RMB'000)*	FY2021 *(RMB'000)*
(i) for distribution	30,000	40,000	40,000
(ii) for internal use within Meide Group	24,000	24,000	24,000

Should the actual annual total sales exceed the above proposed annual caps, our Company will revise the annual caps in compliance with the relevant requirements under Chapter 14A of the Listing Rules.

Bases and assumptions in estimating the annual caps

In arriving at the above annual caps, we have taken into account (i) the historical transaction amounts between Meide Group and our Group for the Track Record Period and up to 30 September 2019; (ii) the expected change in revenue and in annual purchase volume of the major products sold to Meide Group for distribution; (iii) the expected volume of purchase from Meide will decrease due to the anticipated completion of the factory constructions; (iv) the prevailing market price of the same or comparable products supplied by our Company in the ordinary and usual course of business; and (v) the subsequent projected change in the demand for our products on the assumption that the costs of raw materials and other overhead costs remain constant.

Should our actual annual sales in any particular year exceed the annual caps above, we will take appropriate actions to comply with the relevant requirements under Rule 14A.54 of the Listing Rules in respect of any and all amounts in excess.

Listing Rules implications

As each of the applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the transactions under the Products Supply Framework Agreement is expected to be more than 5.0% on an annual basis and the annual consideration is more than HK$10.0 million, the transactions contemplated under the Products Supply Framework Agreement constitute a non-exempt continuing connected transaction of our Company and are subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Application for Waivers

As the non-exempt continuing connected transaction set out above will continue after the Listing on a recurring basis and are expected to extend over a period of time, our Directors and the Sole Sponsor consider that strict compliance with the announcement and independent Shareholders' approval requirements under the Listing Rules would be unduly burdensome and add unnecessary administrative costs on our Company each time such transactions arise. Accordingly, pursuant to Rule14A.105 of the Listing Rules, our Directors and the Sole Sponsor have applied for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement and independent shareholders' approval requirements of the Listing Rules, subject to the aggregate values of the continuing connected transactions for each financial year not exceeding the relevant amounts set forth in the respective annual caps (as stated above). We will, however, comply at all times with the applicable provisions under Rules 14A.34, 14A.49, 14A.51 to 14A.52, 14A.54, and 14A.59 of the Listing Rules in respect of these non-exempt continuing connected transactions.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as of the date of this prospectus on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements.

(D) INTERNAL CONTROL MEASURES

Our Audit Committee, which is comprised entirely of our independent non-executive Directors, will continuously monitor our Group's continuing connected transactions on an ongoing basis. An annual review report on continuing connected transactions will be compiled by our Audit Committee. This report will be reproduced in the annual reports for each financial year after the Listing. Our Group believes that our Audit Committee will carefully consider whether all of the continuing connected transactions of our Group are entered into under ordinary and usual course of business of our Group, on normal commercial terms or, if applicable, on terms no less favourable to our Group than those available to or from (as appropriate) Independent Third Parties, and are fair and reasonable to our Group and in the interests of our Company and our Shareholders as a whole.

Mr. Kong, who is both the Chairman of our Company and the chairman of Meide Group, may be perceived to have conflicts of interests, since Mr. Kong is connected with the connected person or an overlapping director at Meide. He will not participate in any meetings or discussions of our Board, or be included in any decision-making processes relating to such conflicting matters.

Upon expiry of the waivers, we will comply with the applicable provisions of Chapter 14A of the Listing Rules as amended from time to time or apply for relevant waivers. In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as at the date of this prospectus on the continuing connected transaction referred to in this section including, but not limited to, a requirement that these transactions be made conditional upon our independent Shareholders' approval, we will take immediate steps to ensure compliance with such requirements.

(E) DIRECTORS' VIEWS

Our Directors (including our independent non-executive Directors) consider that the continuing connected transactions described under "(C) Continuing Connected Transactions" above have been entered into, and will be carried out, in the ordinary and usual course of our business, on normal commercial terms and in accordance with the respective agreements governing them on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. Our Directors (including our independent non-executive Directors) are also of the view that the annual caps of the continuing connected transactions under "(C) Continuing Connected Transactions" above are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

(F) SOLE SPONSOR'S VIEW

Based on the due diligence findings and the representations and confirmations from our Group, the Sole Sponsor is of the view that the continuing connected transactions described under "(C) Continuing Connected Transactions" above are entered into, and will be carried out (i) in the ordinary and usual course of our business; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole. The Sole Sponsor is also of the view that the proposed annual caps for the non-exempt continuing connected transactions under "(C) Continuing Connected Transactions" above are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

So far as our Directors are aware, immediately following the completion of the Capitalisation Issue and the Global Offering, the following persons will have or be deemed or taken to have an interest and/or a short position in Shares which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10.0% or more of the issued voting shares of any other member of our Group:

Name	Nature of Interest	Number of Shares[(1)(2)]	Approximate percentage of Shareholding in the total issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering[(1)(2)]
Ying Stone[(3)]	Beneficial owner	172,600,000 Shares	39.788%
Mr. Kong[(3)]	Interest of a controlled corporation	172,600,000 Shares	39.788%
Tong Chuang Sheng De BVI	Beneficial owner	70,160,000 Shares	16.173%
Tong Chuang Xing De BVI[(4)]	Beneficial owner	51,040,000 Shares	11.766%
Guo Lei[(4)]	Interest of a controlled corporation	51,040,000 Shares	11.766%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 433,800,000 Shares in issue immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme).

(3) Ying Stone is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Kong.

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

Save as disclosed above and in "Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 2. Substantial Shareholders" in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately upon completion of the Capitalisation Issue and the Global Offering (without talking into account of the Shares which may be allotted and issued upon the exercise of any options which may be granted under 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 and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10.0% or more of any member of our Group other than our Company. Our Directors are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the completion of the Capitalisation Issue and the Global Offering:

Authorised share capital

5,000,000,000	Shares of US$0.0001 each	US$500,000.0

Issued and to be issued, fully paid or credited as fully paid, immediately upon completion of the Capitalisation Issue and the Global Offering

Without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme, the issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering will be as follows:

		US$
16,770	Shares in issue at the Latest Practicable Date	1.7
335,383,230	Shares to be issued pursuant to the Capitalisation Issue	33,538.3
98,400,000	Shares to be issued pursuant to the Global Offering	9,840.0
433,800,000	**Shares in total**	43,380.0

ASSUMPTIONS

The above tables assume that the Global Offering has become unconditional and the Shares are issued pursuant to the Capitalisation Issue and the Global Offering. The above table takes no account of any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors referred to below.

MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after Listing under the Listing Rules is 25.0% of its share capital in issue from time to time.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls on or after the Listing Date.

ALTERATION OF SHARE CAPITAL

Our Company has only one class of Shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by shareholders' ordinary resolution (i) increase its capital; (ii) consolidate and divide its capital into shares of larger amount; (iii) subdivide its Shares into shares of smaller amount; and (iv) cancel any shares which have not been taken. In addition, our Company may, subject to the provisions of the Cayman Companies Law, reduce or redeem its share capital by our shareholders passing a special resolution. For more details, please see "Summary of the Constitution of our Company and the Cayman Companies Law — 2. Articles of Association — 2.5 Alteration of capital" in Appendix III to this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Please see "Statutory and General Information — D. Other Information — 1. Share Option Scheme" in Appendix IV to this prospectus for further details.

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, securities convertible into Shares (the "**Convertible Securities**") or options, warrants or similar rights to subscribe for any Shares or such convertible securities (the "**Options and Warrants**") and to make or grant offers, agreements or options which might require such Shares, the Convertible Securities or the Options and Warrants to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares or the underlying Shares relating to the Convertible Securities or the Options and Warrants so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

(i) 20.0% of the aggregate number of the share capital of our Company in issue immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any option that may be granted under the Share Option Scheme); and

(ii) the aggregate number of the share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders.

This general mandate to issue Shares, Convertible Securities or Options and Warrants will expire at the earliest of:

(i) the conclusion of our next annual general meeting unless otherwise renewed by an ordinary resolution of our Shareholders passed in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or by the Memorandum of Association and Articles of Association; or

(iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed at a general meeting.

For further details of this general mandate, please see "Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 3. Resolutions in Writing of all our Shareholders passed on 19 November 2019" in Appendix IV to this prospectus.

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 not more than 10.0% of the aggregate number of our share capital in issue immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme).

This mandate relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in "Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 7. Repurchase of our Securities by our Company" in Appendix IV to this prospectus.

This general mandate to repurchase Shares will expire at the earliest of:

(i) the conclusion of our next annual general meeting unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Memorandum of Association and Articles of Association; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders passed at a general meeting.

For further details of this general mandate, please see "Statutory and General Information — A. Further Information about our Company and our Subsidiaries — 3. Resolutions in Writing of all our Shareholders passed on 19 November 2019" in Appendix IV to this prospectus.

*You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in "Appendix I — Accountants' Report" to this prospectus. The consolidated financial information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). The financial information is not necessarily indicator of future performance of our Group. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in "Risk Factors".

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

OVERVIEW

We are principally engaged in the manufacturing and selling of standard prefabricated pipe nipple products and steel pipe products. We possess the capability to supply a variety of products in terms of length, outside diameter and surface finishing which cater for the varying needs of our customers and comply with international standards. Leveraging our industry experience, we are able to design and supply a variety of assembled piping systems to our customers to satisfy various physical and functional characteristics of our customers' designated sites. We also sell unused raw materials mainly include steel coils that were procured from suppliers. Since our establishment, we have established sales network across the world and have built up a broad and geographically diversified customer base with more than 320 customers as at 31 May 2019, most of which are located in the PRC and the rest are spread across over 35 overseas countries around the globe. According to the Frost & Sullivan Report, we ranked first in the PRC standard prefabricated pipe nipple industry in terms of export value by tons with a market share of 7.1% and 0.2% in the PRC steel pipes manufacturing industry in terms of revenue in 2018.

For the years ended 31 December 2016, 2017 and 2018, our total revenue was approximately RMB452.3 million, RMB938.2 million and RMB1,214.8 million, while our profit for the year was approximately RMB24.2 million, RMB77.6 million and RMB101.5 million, respectively. Our revenue decreased by approximately RMB33.4 million or 7.5% from approximately RMB444.8 million for the five months ended 31 May 2018 to approximately RMB411.4 million for the five months ended 31 May 2019. Our profit for the period remained relatively stable at approximately RMB31.3 million and RMB32.3 million for the five months ended 31 May 2018 and 2019, respectively.

BASIS OF PRESENTATION

Our Company was incorporated as a company with limited liability in the Cayman Islands on 1 February 2019. In preparation of the Listing, we underwent the Reorganisation, as detailed in "History, Reorganisation and Corporate Structure — The Reorganisation".

The consolidated financial information of our Group for the Track Record Period, which comprised the financial statements of our Company and its subsidiaries, has been prepared in accordance with HKFRSs. All intragroup transactions and balances have been eliminated on consolidation. The financial information has been prepared as if the current group structure had been in existence throughout the Track Record Period. For more information on the basis of presentation of the financial information included herein, please see Note 1 to the Accountants' Report in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, many of which may be beyond our control, including those factors set out in "Risk Factors" and those set out below:

Market demand of our products

Our customers mainly include gas and HVAC companies, water supply companies, infrastructure and construction companies, wholesalers and distributors which on-sell our products to their own customers mostly in the aforesaid areas of application. Our turnover and profitability are affected by the demand of standard prefabricated products and steel pipe products.

According to Frost & Sullivan Report, despite of "China-U.S. Trade War" and other trade barriers imposed by European countries against the PRC, the export of ERW has recovered a moderate growth from 2013 to 2018 with a CAGR of 1.6%. Driven by the "One Belt, One Road Policy", the increasing pipeline projects in Africa and Southeast Asia, and the shift of PRC's trading strategy, the export size of ERW is expected to increase at a CAGR of 4.2%, reaching RMB2.7 billion in 2023. For the next five years, the market size of overall steel pipe manufacturing is expected to grow at a CAGR of 2.0%, reaching RMB259.0 billion for the welded steel pipe manufacturing. Even so, the demand for our products depends to a significant extent on a number of factors relating to investment in infrastructure, construction and overseas demand that are beyond our control.

Our ability to maintain our reputation and market presence

We are principally engaged in the manufacturing and selling standard prefabricated pipe nipple products and steel pipe products. During the Track Record Period, our standard prefabricated pipe nipple products represented approximately 11.7%, 31.3%, 31.2% and 25.4% of our total revenue, whereas our steel pipe products represented approximately 87.1%, 67.4%, 63.7% and 68.2% of our total revenue, respectively. According to the Frost & Sullivan Report, we ranked first in the PRC standard prefabricated pipe nipple industry in terms of export value by ton with a market share of 7.1% in 2018. We believe we have established our reputation for our ability to deliver quality standard prefabricated pipe nipple products and steel pipe products to our customers and have thereby granted customers' confidence and strengthened our customers' loyalty. Our ability to maintain our market position and industry reputation thus affects our ability to generate revenue.

Change in product mix and profit margins

During the Track Record Period, our Group's overall gross profit margins were 17.7%, 22.9%, 23.0% and 22.8% respectively. Our Group's operating results are affected by our product mix as gross profit margin varies with different products. Our Group's gross profit margin will be adversely affected if the revenue contribution from our standard prefabricated pipe nipples decreases, or if its gross profit margin decreases. Our Group's ability to maintain and increase our gross profit margin depends on the intensity of market competition, market supply and demand, product quality and the costs of raw materials. Our Group endeavours to adjust our product mix constantly in response to changes in demand and pricing for each product.

Cost of materials

Our materials used represents a major component of our cost of sales that accounted for approximately 89.0%, 87.1%, 86.5% and 85.7% of our cost of sales for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. Despite our selling price is linked to material cost, increase in the price of materials would negatively impact our profitability if we are unable to effectively transfer the full extent of any increased cost resulting from such price increase to our customers through increasing the selling price of our products.

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our materials used on our profit before tax during the Track Record Period, assuming the fluctuation of our materials used to be 2%, 4% and 6% with reference to CAGR of cost of steel coils from 2013 to 2018 as stated in the Frost & Sullivan Report, with other variables remained constant:

	Decrease/increase in our profit before tax			
	For the years ended 31 December			For the five months ended
	2016	**2017**	**2018**	**31 May 2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Hypothetical fluctuation of materials used				
Hypothetical increase/decrease of 2%	-/+6,626	-/+12,600	-/+16,196	-/+5,443
Hypothetical increase/decrease of 4%	-/+13,251	-/+25,199	-/+32,393	-/+10,887
Hypothetical increase/decrease of 6%	-/+19,877	-/+37,799	-/+48,589	-/+16,330

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Seasonality

As our products are generally applied in HVAC systems, most of our sales are conducted between March to October to prepare for the demand in heating during winter, therefore, based on our Directors' past experience, we generally record lower sales of our ERW steel pipes and SSAW steel pipes from November to February. Save as disclosed, we generally record higher demands from our customers in the rest of the year.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

Our Directors have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. The significant accounting policies which are important for an understanding of our financial condition and results of operations are set forth in detail in Note 3 to the Accountants' Report in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items, the significant accounting estimates and judgements are set forth in detail in Note 4 to the Accountants' Report in Appendix I to this prospectus. The determination of these items requires management judgments based on information and financial data that may change in future periods. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgements used in the preparation of our financial statements.

Adoption of HKFRS 9 and 15

HKFRS 9 *Financial Instruments* replaces the provisions of HKAS 39 *Financial Instruments: Recognition and Measurement*. HKFRS 15 *Revenue from Contracts with Customers* replaces the previous revenue standards HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and related interpretations. The standards are effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

We adopted HKFRS 9 prospectively from 1 January 2018. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting. For the summary of effects arising from initial application of HKFRS 9, please refer to section headed "Adoption of New and Revised HKFRSs — HKFRS 9 *Financial Instruments* and the related amendments" in Note 2 to the Accountants' Report in this prospectus.

We adopted HKFRS 15 on a consistent basis throughout the Track Record Period. Upon adoption of HKFRS 15, contract liabilities which represented the obligation to transfer goods to the customers for which our Group has received consideration from the customers amounted to approximately RMB3.9 million, RMB5.2 million, RMB16.4 million and RMB16.1 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively, and contract asset which represented our Group's right to consideration in exchange for goods that our Group has transferred to a customer that is not yet unconditional amounted to approximately RMB4.7 million, RMB7.1 million, RMB18.8 million and RMB14.0 million as at 31 December 2016, 2017, and 2018 and 31 May 2019, respectively, have separately disclosed. Other than these changes, the adoption of HKFRS 15 did not have a significant impact on our financial position and results of operations during the Track Record Period. For details of significant accounting policy of HKFRS 15, please refer to Note 3 "Significant Accounting Policies — Revenue Recognition" in Appendix I to this prospectus.

Our Directors consider that the adoption of HKFRS 9 and HKFRS 15 would not have a significant impact on our Group's consolidated financial position and performance compared to the requirements of HKAS 39 and HKAS 18.

Adoption of HKFRS 16

HKFRS 16 *Leases* replaces HKAS 17 *Leases* and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply HKFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of HKFRS 16.

Under HKAS 17, operating lease commitments are disclosed separately in a note to the consolidated financial statement and are recognised outside of the consolidated statement of financial position. Under HKFRS 16, all leases (except for those with lease term of less than 12 months or of low value) must be recognised in the form of an asset (being the right-of-use assets in our financial statements) and a financial liability (being the lease liabilities in our financial statements), and, accordingly, each lease will be mapped in our consolidated statements of financial position. For details of significant accounting policy of HKFRS 16, please refer to Note 3 "Significant Accounting Policies — Leasing" in Appendix I to this prospectus.

By applying HKFRS 16, as at 31 December 2016, 2017 and 2018 and 31 May 2019, we recognised right-of-use assets amounted to RMB46.0 million, RMB45.1 million, RMB47.8 million and RMB47.1 million, respectively, and recognised lease liabilities amounted to nil, nil, RMB2.4 million and RMB2.1 million as at the respective dates. Our Directors consider that the adoption of HKFRS 16 as compared to the requirements of HKAS17, would increase the consolidated assets and consolidated liabilities of our Group, but would not result in a significant impact to our Group's consolidated financial position and performance.

The following table sets forth the impact of adoption of HKFRS 16 on key financial ratios, our Group's consolidated financial position (i.e. net assets) and financial performance (i.e. net profit) for the relevant periods in which HKFRS 16 was not effective when compared with the adoption of HKAS 17:

	As at/for the years ended 31 December			As at/for the five months ended 31 May
	2016	**2017**	**2018**	**2019**
Increase/(decrease) in:				
Current ratio (times)	—	—	—	—
Quick ratio (times)	—	—	—	—
Gearing ratio (%)	—	—	—	—
Net assets (RMB'000)	—	—	(7.7)	(42.7)
Net profit (RMB'000)	—	—	(7.7)	(42.7)

RESULTS OF OPERATIONS

The following table summarises the consolidated statements of profit or loss for the periods indicated:

	For the years ended 31 December			For the five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Revenue	452,283	938,169	1,214,839	444,828	411,414
Cost of sales	(372,396)	(723,420)	(935,687)	(348,328)	(317,770)
Gross profit	79,887	214,749	279,152	96,500	93,644
Other income	361	64	399	189	555
Other gains and losses	5,801	(944)	1,090	(1,445)	6,074
Distribution and selling expenses	(20,624)	(48,445)	(65,909)	(25,054)	(21,881)
Administrative expenses	(11,711)	(22,626)	(26,248)	(9,245)	(9,446)
Research and development costs	(21,871)	(33,845)	(49,990)	(17,323)	(17,614)
Impairment losses on trade receivables and contract assets	(1,547)	(2,769)	(92)	(338)	(479)
Finance costs	(1,159)	(14,957)	(14,464)	(5,864)	(5,251)
Listing expenses	—	—	(4,523)	—	(6,609)
Profit before taxation	29,137	91,227	119,415	37,420	38,993
Taxation charge	(4,952)	(13,650)	(17,944)	(6,135)	(6,732)
Profit for the year/period	24,185	77,577	101,471	31,285	32,261

DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We are principally engaged in the manufacturing and selling of standard prefabricated pipe nipple products and steel pipe products. We possess the capability to supply a variety of products in terms of length, outside diameter and surface finishing which cater for the varying needs of our customers and comply with international standards. During the Track Record Period, we offered sales rebate to our customers as an incentive. Sales rebate is recognised as a deduction of revenue at the time when the rebate is granted. Please see "Business — Our Customers — Sales rebate" for details.

Revenue by product

During the Track Record Period, our total revenue amounted to approximately RMB452.3 million, RMB938.2 million, RMB1,214.8 million and RMB411.4 million, respectively. Our standard prefabricated pipe nipple products represented approximately 11.7%, 31.3%, 31.2% and 25.4% of our total revenue, whereas our steel pipe products represented approximately 87.1%, 67.4%, 63.7% and 68.2% of our total revenue, respectively. The following table sets forth, for the periods indicated, the breakdown of our gross revenue by product categories for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	Revenue		Revenue		Revenue		Revenue		Revenue	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Standard prefabricated pipe nipples	52,896	11.7	300,073	31.8	391,014	31.9	155,857	34.5	109,184	26.2
Steel pipe products										
— ERW steel pipes	144,617	32.0	267,819	28.4	351,055	28.6	139,192	30.8	136,332	32.7
— SSAW steel pipes	189,048	41.8	249,737	26.4	292,183	23.8	100,309	22.2	74,798	17.9
— Customised steel pipes	60,399	13.3	114,816	12.2	131,589	10.7	47,034	10.4	70,467	16.9
Design and supply assembled piping system	—	—	2,826	0.3	10,774	0.9	2,121	0.5	3,156	0.8
Others	5,323	1.2	9,416	0.9	50,616	4.1	7,220	1.6	22,962	5.5
Total	452,283	100.0	944,687	100.0	1,227,231	100.0	451,733	100.0	416,899	100.0

The follow table sets forth, for the periods indicated, the breakdown of our sales rebate by product categories for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Standard prefabricated pipe nipples	—	—	6,518	100.0	11,747	94.8	6,491	94.0	4,605	84.0
Steel pipe products										
— ERW steel pipes	—	—	—	—	645	5.2	414	6.0	880	16.0
— SSAW steel pipes	—	—	—	—	—	—	—	—	—	—
— Customised steel pipes	—	—	—	—	—	—	—	—	—	—
Design and supply assembled piping system	—	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—	—
Total	—	—	6,518	100.0	12,392	100.0	6,905	100.0	5,485	100.0

During the Track Record Period, majority of our sales rebate was generated from sales of standard prefabricated pipe nipples. For the year ended 31 December 2016, there was no sales rebate offered to our customers because the sales of standard prefabricated pipe nipples was in initial stage in 2016 and our Group did not enter into sales rebate arrangement with our customers. Our sales of standard prefabricated pipe nipple products only commenced in November 2016 after the acquisition of business from Meide, as disclosed under "History, Reorganisation and Corporate Structure — Acquisition of the standard prefabricated pipe nipple business from Meide".

The following table sets forth, for the periods indicated, the breakdown of our net revenue, sales volume and average selling price (the "**ASP**") by product categories for the periods indicated:

	For the years ended 31 December											
	2016				2017				2018			
	Revenue		Sales volume	ASP(Note)	Revenue		Sales volume	ASP(Note)	Revenue		Sales volume	ASP(Note)
	RMB'000	*%*	*ton'000*	*RMB/ton*	*RMB'000*	*%*	*ton'000*	*RMB/ton*	*RMB'000*	*%*	*ton'000*	*RMB/ton*
Standard prefabricated pipe nipples	52,896	11.7	4.7	11,220	293,555	31.3	23.6	12,433	379,267	31.2	24.9	15,209
Steel pipe products												
— ERW steel pipes	144,617	32.0	46.5	3,109	267,819	28.5	60.9	4,396	350,410	28.8	73.8	4,753
— SSAW steel pipes	189,048	41.8	66.0	2,863	249,737	26.6	63.9	3,908	292,183	24.1	65.7	4,447
— Customised steel pipes	60,399	13.3	17.3	3,484	114,816	12.3	25.1	4,566	131,589	10.8	25.6	5,148
Design and supply of assembled piping system	—	—	N/A	N/A	2,826	0.3	N/A	N/A	10,774	0.9	N/A	N/A
Others	5,323	1.2	2.3	2,344	9,416	1.0	3.2	2,985	50,616	4.2	14.5	3,486
Total	452,283	100.0			938,169	100.0			1,214,839	100.0		

	For the five months ended 31 May							
	2018				2019			
	Revenue		Sales volume	ASP(Note)	Revenue		Sales volume	ASP(Note)
	RMB'000 (unaudited)	*%*	*ton'000*	*RMB/ton*	*RMB'000*	*%*	*ton'000*	*RMB/ton*
Standard prefabricated pipe nipples	149,366	33.6	11.0	13,627	104,579	25.4	6.7	15,619
Steel pipe products								
— ERW steel pipes	138,778	31.2	30.0	4,628	135,452	32.9	30.5	4,448
— SSAW steel pipes	100,309	22.5	22.6	4,434	74,798	18.2	17.4	4,297
— Customised steel pipes	47,034	10.6	9.3	5,051	70,467	17.1	14.4	4,882
Design and supply of assembled piping system	2,121	0.5	N/A	N/A	3,156	0.8	N/A	N/A
Others	7,220	1.6	2.1	3,369	22,962	5.6	7.1	3,230
Total	444,828	100.0			411,414	100.0		

Note: The average selling price is derived by the revenue of the respective product divided by the sales volume, where applicable.

(i) Standard prefabricated pipe nipples

Our standard prefabricated pipe nipples are classified in terms of outside diameter, length, materials used and international standard. During the Track Record Period, our sales of standard prefabricated pipe nipples accounted for approximately RMB52.9 million, RMB293.6 million, RMB379.3 million and RMB104.6 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing approximately 11.7%, 31.3%, 31.2% and 25.4% of our total revenue for the corresponding periods.

(ii) Steel pipes products

(a) ERW steel pipes

Our ERW steel pipes are widely used as sub-pipeline and used in smaller scale projects, such as fire sprinkler system, water supplies and HVAC system. During the Track Record Period, our sales of ERW steel pipes accounted for approximately RMB144.6 million, RMB267.8 million, RMB350.4 million and RMB135.5 million for the three years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively, representing approximately 32.0%, 28.5%, 28.8% and 32.9% of our total revenue for the corresponding periods.

(b) SSAW steel pipes

Our SSAW steel pipes are used as main and long distance pipelines and suitable to conveyance of water and gas due to their tolerance to high temperature and pressure and their impact strength. During the Track Record Period, our sales of SSAW steel pipes accounted for approximately RMB189.0 million, RMB249.7 million, RMB292.2 million and RMB74.8 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing approximately 41.8%, 26.6%, 24.1% and 18.2% of our total revenue for the corresponding periods.

(c) Customised steel pipes

Our customised steel pipe products are manufactured under specific requirements and areas of customisation mainly include grooving, threading or thickened coating as required by our customers. During the Track Record Period, our sales of customised steel pipes accounted for approximately RMB60.4 million, RMB114.8 million, RMB131.6 million and RMB70.5 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing approximately 13.3%, 12.3%, 10.8% and 17.1% of our total revenue for the corresponding periods.

(iii) Design and supply of assembled piping system

Our Group started to provide the design and supply of assembled piping system in 2017. During the Track Record Period, our sales of design and supply of assembled piping system accounted for approximately nil, RMB2.8 million, RMB10.8 million and RMB3.2 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing approximately nil, 0.3%, 0.9% and 0.8% of our total revenue for the corresponding periods.

(iv) Others

Others mainly represents our revenue generated from unused raw materials, accounted for approximately RMB5.3 million, RMB9.4 million, RMB50.6 million and RMB23.0 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing approximately 1.2%, 1.0%, 4.2% and 5.6% of our total revenue for the corresponding periods.

The following table sets forth the average selling price ("**ASP**") of our standard prefabricated pipe nipples and steel pipe products, average purchase price of steel coils, and the difference between the average selling price and the average purchase price of steel coils for the periods indicated:

	For the years ended 31 December			For the years ended 31 December	
	2016	**2017**	**2018**	**2017**	**2018**
ASP (without tax) of our products *(Note 1)*	**(RMB/ ton)**	**(RMB/ ton)**	**(RMB/ ton)**	**+/(–)**	**+/(–)**
— Standard prefabricated pipe nipples	11,220 *(Note 3)*	12,433	15,209	10.8% *(Note 3)*	22.3%
— ERW steel pipe products	3,109	4,396	4,753	41.4%	8.1%
— SSAW steel pipe products	2,863	3,908	4,447	36.5%	13.8%
— Customised steel pipe products	3,484	4,566	5,148	31.1%	12.7%
Average purchase price (without tax) of steel coils for our Group *(Note 2)*	**2,244** *(Note 3)*	**3,179**	**3,525**	**41.7%** *(Note 3)*	**10.9%**
Market comparable price (without tax) of steel coils *(Note 3, 5)*					
PRC overall	2,884	3,960	4,259	37.3%	7.6%
Northern China	2,302	3,268	3,567	42.0%	9.2%

Notes:

(1) The average selling price is derived by the revenue of the respective product of the corresponding period divided by the sales volume of that year, where applicable.

(2) The average purchase price of steel coils is derived by the purchase price of steel coils of the corresponding periods divided by the purchase volume of that year.

(3) Our sales of standard prefabricated pipe nipple products only commenced in November 2016 after the acquisition of business from Meide, as disclosed under "History, Reorganisation and Corporate Structure — Acquisition of the standard prefabricated pipe nipple business from Meide". For illustrative purpose, the average purchase price of steel coil for November and December 2016 was RMB2,854. The increase of average purchase price of steel coil for the year ended 31 December 2017 as compared to the average purchase price for November and December 2016 was approximately 11.4%. The market comparable price of steel coils in Northern China for November and December 2016 were approximately RMB2,871, representing a price change of approximately 13.8% as compared that of 2017, respectively.

(4) The market price of customised steel pipe products are not available as these products are made with customers' specifications and the price of the products are subject to production complexity and material used.

(5) As the Group's operation is located in Jinan, Shandong Province, the Group would procure steel coils from suppliers nearby its production site, i.e. Northern China, including Tangshan of Hebei Province, Handan of Hebei Province, Laiwu of Shandang Province and Tianjin.

Steel coils represent the largest component of our costs of raw materials. For the three years ended 31 December 2018 and the five months ended 31 May 2019, cost of steel coils amounted to approximately RMB256.6 million, RMB451.9 million, RMB594.1 million and RMB193.9 million, representing approximately 77.5%, 71.7%, 73.4% and 71.2% of our cost of raw materials for the corresponding periods. Therefore, fluctuation in price of steel coils have a direct impact on the average cost of our products.

The unit price of each of our products varies significantly which depends on factors such as the price of the raw materials, product specifications and mix, functional and quality requirements, the competitive landscape of the market and prices of our competitors' products and payments. In additions, our Directors are of the view that the demand of our customers for different products would lead to a different product mix from period to period. Since steel coils represent the largest component of our costs of raw materials, average purchase price of steel coils instead of average cost of raw materials is used in the analysis.

Standard prefabricated pipe nipples

The ASP of standard prefabricated pipe nipples increased by approximately RMB1,213 per ton or 10.8% from approximately RMB11,220 per ton for the year ended 31 December 2016 to approximately RMB12,433 per ton for the year ended 31 December 2017, primarily driven by the increase in average purchase price of steel coils. Our sales of standard prefabricated pipe nipple products only commenced in November 2016. Taking into account the average purchase price of steel coils only for November and December 2016, which is 11.4%, the increase in the ASP for our standard prefabricated pipe nipple products for the year ended 31 December 2017 of approximately 10.8% was generally in line with the increase in average purchase price for the respective period. ASP of standard prefabricated pipe nipples further increased by approximately RMB2,776 per ton or 22.3% to approximately RMB15,209 per ton for the year ended 31 December 2018, primarily driven by (i) the increase in demand of one type of our standard prefabricated pipe nipples, namely brass standard prefabricated pipe nipples, which was generally sold at a higher price due to the higher cost of brass as compared to steel coil, and therefore increasing our overall ASP. The sales volume of these brass standard prefabricated pipe nipples increased by approximately 62.7% as compared to that 2017; and (ii) the increase in average purchase price of steel coils by approximately 10.9%. For the year ended 31 December 2018, the increase in demand for brass standard prefabricated pipe nipples were mainly attributable to the purchase of such products from two customers, namely Matco-Norca LLC, one of our major customers during the Track Record Period and Customer F, which is the eighth largest customers during the same period in terms of revenue generated. Customer F is a company incorporated in the United States, which principally engages in the sales of fittings and nipples for the plumbing and HVAC industries as a wholesaler and its holding company is a listed company on the London Stock Exchange. In aggregate, the two customers had increased their purchase of brass standard prefabricated pipe nipples by 243.1% in terms of sales volume for the year ended 31 December 2018 as compared to the same period in 2017. To the best knowledge of our Directors after making all reasonable enquiries, Matco-Norca LLC increased its purchase of brass standard prefabricated pipe nipple products due to its change in procurement and sales strategies. As to Customer F, the increase in purchase volume from our Group was an ad hoc transaction since there was a shortage of supply of brass standard prefabricated pipe nipples from their existing suppliers.

Steel pipe products

ERW steel pipes

The ASP of ERW steel pipes increased by approximately RMB1,287 per ton or 41.4% from approximately RMB3,109 per ton for the year ended 31 December 2016 to approximately RMB4,396 per ton for the year ended 31 December 2017, primarily driven by increase in purchase price of steel coils by approximately 41.7%. ASP of ERW steel pipes further increased by approximately RMB357 per ton or 8.1% to approximately RMB4,753 per ton for the year ended 31 December 2018, primarily driven by the increase in average purchase price of steel coils by approximately 10.9%.

SSAW steel pipes

The ASP of SSAW steel pipes increased by approximately RMB1,045 per ton or 36.5% from approximately RMB2,863 per ton for the year ended 31 December 2016 to approximately RMB3,908 per ton for the year ended 31 December 2017, primarily driven by increase in purchase price of steel coils by approximately 41.7%. ASP of SSAW steel pipes further increased by approximately RMB539 per ton or 13.8% to approximately RMB4,447 per ton for the year ended 31 December 2018, primarily driven by the increase in average purchase price of steel coils by approximately 10.9%.

Customised steel pipes

ASP of customised steel pipes increased by approximately RMB1,082 per ton or 31.1% from approximately RMB3,484 per ton for the year ended 31 December 2016 to approximately RMB4,566 per ton for the year ended 31 December 2017, primarily driven by the increase in average purchase price of steel coils by approximately 41.7%. ASP of customised steel pipes further increased by approximately RMB582 per ton or 12.7% to approximately RMB5,148 per ton for the year ended 31 December 2018, primarily driven by the increase in average purchase price of steel coils by approximately 10.9%.

The increase of the ASP relating to our Group's products was generally in line with the increase in the major raw material (i.e. steel coils) during the Track Record Period. While most of the Group's products were manufactured in accordance with the general requirements from national standards without any further specific requirement or the international standards, this does not mean the products manufactured by different manufacturers were indifferent with each other. Our Directors believe that our Group's ability to offer high quality standard prefabricated pipe nipple products and steel pipe products is a major competitive strength that differentiated with other industry players. As disclosed in "Business — Competitive Strengths", our Group placed stringent quality control system covering the entire production process. Also, the quality control capabilities had been accredited with, among others, ISO certifications and OHSAS 18001 certification. Our Group is also equipped with a comprehensive range of quality control machinery to oversee the quality of raw materials, works in progress and finished products. Such stringent quality control system enables the manufacturing of good and stable quality products. We were also invited to take lead in establishing a number of domestic standards in recognition of our research and development capabilities. Our Group's ability can be evidenced by the market share of our Group in the standard prefabricated pipe nipple industry and steel pipe industry during the Track Record Period. Our Group ranked first in the PRC standard prefabricated pipe nipple industry in terms of export value by tons in 2018 according to the Frost & Sullivan Report. Our Group had maintained close business relationships with our customers since the commencement of our operation and are able to satisfy with the customers' bulk purchase orders in an efficient manner.

Revenue by geographical regions

Over the years, we have built up a broad and geographically diversified customer base and we had more than 320 customers as at 31 May 2019, most of which are located in the PRC and the rest are spread across 35 overseas countries around the globe. The following table sets forth the breakdown of our revenue by geographical regions of our products for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Domestic market										
The PRC	364,907	80.7	576,818	61.5	655,546	54.0	215,358	48.4	230,919	56.1
Overseas markets										
The United States	3,932	0.9	138,559	14.8	247,510	20.4	92,642	20.8	71,246	17.3
Other countries in Americas (excluding the United States) *(Note 1)*	13,162	2.9	68,974	7.3	101,215	8.3	41,100	9.3	34,335	8.5
Other countries in Asia (excluding the PRC)	61,537	13.6	121,831	13.0	169,760	14.0	79,772	17.9	53,777	13.1
Europe	1,401	0.3	17,836	1.9	13,803	1.1	4,819	1.1	5,907	1.3
Others *(Note 2)*	7,344	1.6	14,151	1.5	27,005	2.2	11,137	2.5	15,230	3.7
Subtotal	87,376	19.3	361,351	38.5	559,293	46.0	229,470	51.6	180,495	43.9
Total	452,283	100.0	938,169	100.0	1,214,839	100.0	444,828	100.0	411,414	100.0

Notes:

(1) Other countries in Americas (excluding the United States) comprise the continents of North and South America excluding the United States.

(2) Others mainly include Oceania and Africa.

During the Track Record Period, a significant portion of our revenue was generated from the PRC which accounted for approximately 80.7%, 61.5%, 54.0% and 56.1% for the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively.

Sales in the PRC increased by approximately RMB211.9 million or 58.1% from approximately RMB364.9 million for the year ended 31 December 2016 to approximately RMB576.8 million for the year ended 31 December 2017, primarily attributable to (i) increase in sales of ERW pipe nipples mainly attributable to increase in demand from our major customers in the gas and energy sector; (ii) increase in sales of standard prefabricated pipe nipples as a result of the full year contribution of the production of standard prefabricated pipe nipples in 2017; and (iii) the increase in the sales of SSAW steel pipes, primarily due to the increased ASP, mainly driven by the increase in the cost of raw materials. Sales in the PRC further increased to approximately RMB655.5 million for the year ended 31 December 2018, primarily due to the combined effect of (i) the increase in sales of ERW steel pipes, mainly due to the increase in the demand of one of our major customers in the gas and energy sector, coupled with the increase in ASP, which is mainly driven by the increase in the cost of raw materials; and (ii) the increase in sales of SSAW steel pipes, mainly driven by the increase in ASP. Sales in the PRC increased by approximately RMB15.5 million or 7.2% from approximately RMB215.4 million for the five months ended 31 May 2018 to approximately RMB230.9 million for the five months ended 31 May 2019, primarily due to increase in sales to one of our existing customers.

Sales in the United States increased by approximately RMB134.7 million or 3,453.8% from approximately RMB3.9 million for the year ended 31 December 2016 to approximately RMB138.6 million for the year ended 31 December 2017, primarily attributable to increase in sales of standard prefabricated pipe nipples as a result of the full year contribution of the production of standard prefabricated pipe nipples, which was acquired in November 2016. Sales in the United Sales further increased to approximately RMB247.5 million for the year ended 31 December 2018, primarily driven by increase in sales of standard prefabricated pipe nipples to several existing customers coupled with the increase in ASP. Sales in the United States decreased by approximately RMB21.4 million or 23.1% from approximately RMB92.6 million for the five months ended 31 May 2018 to approximately RMB71.2 million for the five months ended 31 May 2019. The decrease was mainly due to the decrease in sales order received from our customers in the United States. For detailed analysis of sales of standard prefabricated pipe nipples, please refer to the paragraph headed "Review of Historical Results of Operations — Comparison of the five months ended 31 May 2018 to the five months ended 31 May 2019" below.

Sales in other countries in Americas increased by approximately RMB55.8 million or 422.7% from approximately RMB13.2 million for the year ended 31 December 2016 to approximately RMB69.0 million for the year ended 31 December 2017, primarily attributable to (i) increase in sales of customised steel pipes mainly as a result of increase in number of customers from over ten for the year ended 31 December 2016 to over 25 for the year ended 31 December 2017, coupled with the increase in ASP which was mainly driven by the increase in cost of raw materials; and (ii) starting sales of standard prefabricated pipe nipples as a result of several new customers. Sales in Americas further increased to approximately RMB101.2 million for the year ended 31 December 2018, primarily driven by (i) increase in sales of ERW steel pipes mainly due to (a) the new demand of ERW steel pipes of one of our standard prefabricated pipe nipples customers in Mexico, and (b) the increase in ASP, mainly driven by the increase in cost of raw materials; and (ii) increase in sales of standard prefabricated pipe nipples mainly as a result of increase in sales to existing customers in Mexico and Canada. Sales in the Americas decreased by approximately RMB6.8 million or 16.5% from approximately RMB41.1 million for the five months ended 31 May 2018 to approximately RMB34.3 million for the five months ended 31 May 2019, mainly due to (i) decrease in sales of standard prefabricated pipe nipples; (ii) ERW steel pipes as a result of the decrease in demand from existing customers located in Mexico for the five months ended 31 May 2019 as compared to that of 2018; and (iii) net off by the increase in sales of customised steel pipes mainly due to the increase in demand from customers for the five months ended 31 May 2019 as compared to that of 2018.

Sales in other Asian countries increased by approximately RMB60.3 million or 98.0% from approximately RMB61.5 million for the year ended 31 December 2016 to approximately RMB121.8 million for the year ended 31 December 2017, primarily attributable to increase in sales of ERW steel pipes mainly as a result of (i) increase in demand from one of our major customers in United Arab Emirates; and (ii) the increase in ASP, which was mainly driven by the cost of raw materials. Sales in other Asian countries further increased to approximately RMB169.8 million for the year ended 31 December 2018, primarily driven by (i) increase in sales of customised steel pipes mainly due to increase in demand from one of our existing customers in Singapore and several new customers in Israel, coupled with the increase in ASP; and (ii) increase in sales of ERW steel pipes mainly due to the increase in the demand of several of our existing customers in Singapore, United Arab Emirates and Hong Kong, and the overall increase in ASP. Sales in the other Asian countries decreased by approximately RMB26.0 million or 32.6% from approximately RMB79.8 million for the five months ended 31 May 2018 to approximately RMB53.8 million for the five months ended 31 May 2019, mainly due to decrease in sales of ERW steel pipes as a result of decrease in demand from one of our existing customers.

Sales in Europe increased by approximately RMB16.4 million or 1,171.4% from approximately RMB1.4 million for the year ended 31 December 2016 to approximately RMB17.8 million for the year ended 31 December 2017, primarily attributable to that we started to sell the standard prefabricated pipe nipples to the Europe customers in 2017. Sales in Europe then decreased to approximately RMB13.8 million for the year ended 31 December 2018, mainly driven by decrease in sales of standard prefabricated pipe nipples mainly due to decrease in demand from our existing customers in Spain and France, and net off by effect of the increase in ASP. Sales in the Europe increased by approximately RMB1.1 million or 22.9% from approximately RMB4.8 million for the five months ended 31 May 2018 to approximately RMB5.9 million for the five months ended 31 May 2019, mainly due to increase in sales of (i) ERW steel pipes; and (ii) customised steel pipes to customers for the five months ended 31 May 2019 whereas no sales of these products were recorded in Europe during five months ended 31 May 2018.

Sales in other countries increased by approximately RMB6.9 million or 94.5% from approximately RMB7.3 million for the year ended 31 December 2016 to approximately RMB14.2 million for the year ended 31 December 2017, mainly due to increase in sales of customised steel pipes as a result of increase in number of customers from approximately five for the year ended 31 December 2016 to over 15 for the year ended 31 December 2017, coupled with the increase in ASP, which is mainly driven by the increase in cost of raw materials. Sales in other countries further increased to approximately RMB27.0 million for the year ended 31 December 2018, primarily driven by the increase in sales of customised steel pipes mainly as a result of the increase in demand of new customers in South Africa and several existing customers in New Zealand, coupled with the increase in the ASP. Sales in the other countries increased by approximately RMB4.1 million from approximately RMB11.1 million for the five months ended 31 May 2018 to approximately RMB15.2 million for the five months ended 31 May 2019, primarily due to (i) increase in sales of customised steel pipes as a result of increase in demand from existing customers located in Africa and New Zealand for the five months ended 31 May 2019 as compared to the five months ended 31 May 2018.

Cost of sales

Our cost of sales for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019 amounted to approximately RMB372.4 million, RMB723.4 million, RMB935.7 million and RMB317.8 million, respectively. Our cost of sales consist of cost of materials, direct labour, depreciation, subcontracting fee and manufacturing overheads. The cost of sales of scrap materials, which was measured at net realisable value on a consistent basis, was deducted from the cost of sales of the main products. Such allocation of cost of sales to scrap materials was primarily based on the relative sales value of the respective scrap materials at the completion of production. The following table sets forth, for the periods indicated, a breakdown of our cost of sales by nature for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Cost of materials	331,284	89.0	629,980	87.1	809,822	86.5	298,103	85.6	272,174	85.7
Direct labour	8,963	2.4	22,556	3.1	27,801	3.0	12,383	3.6	9,737	3.1
Depreciation	8,634	2.3	10,348	1.4	8,382	0.9	3,506	1.0	3,589	1.1
Subcontracting fee	6,511	1.7	7,705	1.1	9,417	1.0	3,578	1.0	—	—
Manufacturing overheads	17,004	4.6	52,831	7.3	80,265	8.6	30,758	8.8	32,270	10.1
Total	372,396	100.0	723,420	100.0	935,687	100.0	348,328	100.0	317,770	100.0

Our costs of materials, being the largest component of our cost of sales, primarily comprise costs of steel coils, pre-processed pipes, zinc ingot and consumables used in production. Direct labour mainly comprises salaries, wages and social insurance cost for those who directly involved in the production. Subcontracting fee mainly represents anti-corrosive or coating fee for our SSAW steel pipe products provided by subcontractors. Manufacturing overheads mainly comprise utility expenses, indirect labour, accessories and others. As a percentage of revenue, our cost of sales accounted for approximately 82.3%, 77.1%, 77.0% and 77.2% for the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively.

Cost of materials increased by approximately RMB298.7 million or 90.2% from approximately RMB331.3 million for the year ended 31 December 2016 to approximately RMB630.0 million for the year ended 31 December 2017, and further increased by approximately RMB179.8 million or 28.5% to approximately RMB809.8 million for the year ended 31 December 2018, primarily due to (i) increase in sales volume; and (ii) increase in procurement cost of steel raw materials. Cost of materials then decreased by approximately RMB25.9 million or 8.7% from approximately RMB298.1 million for the five months ended 31 May 2018 to approximately RMB272.2 million for the five months ended 31 May 2019, mainly due to (i) decrease in sales volume; and (ii) decrease in procurement cost of steel coils.

Our direct labour cost depends on the number of our production staff employed and the production volume. Direct labour increased by approximately RMB13.6 million or 151.1% from approximately RMB9.0 million for the year ended 31 December 2016 to approximately RMB22.6 million for the year ended 31 December 2017, primarily due to increase in headcount in last quarter of 2016 as a result of acquisition of business for production of standard prefabricated pipe nipples. Direct labour further increased by approximately RMB5.2 million or 23.0% to approximately RMB27.8 million for the year ended 31 December 2018, primarily due to increase in production volume. Our direct labour then decreased by approximately RMB2.7 million or 21.8% from approximately RMB12.4 million for the five months ended 31 May 2018 to approximately RMB9.7 million for the five months ended 31 May 2019, mainly due to (i) decrease in sales volume; and (ii) decrease in headcount by approximately 90 production staff for the five months ended 31 May 2019.

Depreciation increased by approximately RMB1.7 million or 19.8% from approximately RMB8.6 million for the year ended 31 December 2016 to approximately RMB10.3 million for the year ended 31 December 2017, primarily due to full year effect of depreciation as a result of acquisition of business for production of standard prefabricated pipe nipples in November 2016. Depreciation then decreased by approximately RMB1.9 million or 18.4% to approximately RMB8.4 million for the year ended 31 December 2018, mainly because certain machineries were fully depreciated in 2018. Depreciation remained relatively stable at approximately RMB3.5 million and RMB3.6 million for each of the five months ended 31 May 2018 and 2019, respectively.

Subcontracting fee increased by approximately RMB1.2 million or 18.5% from approximately RMB6.5 million for the year ended 31 December 2016 to approximately RMB7.7 million for the year ended 31 December 2017, and further increased by approximately RMB1.7 million or 22.1% to approximately RMB9.4 million for the year ended 31 December 2018, mainly due to increase in SSAW steel pipe products which required anti-corrosive treatment and coating. Subcontracting fee decreased by approximately RMB3.6 million or 100.0% from approximately RMB3.6 million for the five months ended 31 May 2018 to nil for the five months ended 31 May 2019, mainly because we did not engage subcontractors to provide 3PE coating process during the five months ended 31 May 2019.

Manufacturing overheads increased by approximately RMB35.8 million or 210.6% from approximately RMB17.0 million for the year ended 31 December 2016 to approximately RMB52.8 million for the year ended 31 December 2017, and further increased by approximately RMB27.5 million or 52.1% to approximately RMB80.3 million for the year ended 31 December 2018, which is in line with the fluctuations in revenue in the respective year. Manufacturing overheads remained relatively stable at approximately RMB30.8 million and RMB32.3 million for the five months ended 31 May 2018 and 2019, respectively.

Gross profit and gross profit margin

Gross profit and gross profit margin by product

The following table sets forth a breakdown of gross profit and gross profit margin of our Group by product category for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	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*	*%*
Standard prefabricated pipe nipples	19,564	37.0	119,728	40.8	161,061	42.5	60,383	40.4	44,791	42.8
Steel pipes products										
— ERW steel pipes	12,342	8.5	30,330	11.3	40,742	11.6	15,164	10.9	19,800	14.6
— SSAW steel pipes	41,033	21.7	45,763	18.3	50,356	17.2	13,652	13.6	14,423	19.3
— Customised steel pipes	6,904	11.4	18,178	15.8	23,527	17.9	6,800	14.5	13,614	19.3
Design and supply of assembled piping system	—	—	685	24.2	3,174	29.5	457	21.6	816	25.9
Others	44	0.8	65	0.7	292	0.6	44	0.6	200	0.9
	79,887	17.7	214,749	22.9	279,152	23.0	96,500	21.7	93,644	22.8

Our gross profit increased by approximately RMB134.8 million, or 168.7%, from approximately RMB79.9 million for the year ended 31 December 2016 to approximately RMB214.7 million for the year ended 31 December 2017 and further increased to approximately RMB279.2 million for the year ended 31 December 2018, primarily due to greater revenue contribution from both the standard prefabricated pipe nipples and steel pipes products. Our gross profit margin increased from approximately 17.7% for the year ended 31 December 2016 to approximately 22.9% for the year ended 31 December 2017, and remained relatively stable at approximately 23.0% for the year ended 31 December 2018.

Our gross profit decreased by approximately RMB2.9 million or 3.0% from approximately RMB96.5 million for the five months ended 31 May 2018 to approximately RMB93.6 million for the five months ended 31 May 2019, primarily due to decrease in sales of standard prefabricated pipe nipples. Our gross profit margin slightly increased from approximately 21.7% for the five months ended 31 May 2018 to approximately 22.8% for the five months ended 31 May 2019.

Our pricing policy aims to facilitate a profitable and sustainable growth of our business. Since each product has its own specifications, the pricing of each product is negotiated and determined on a case-by-case basis with individual customers in order to balance the profitability between our customers and our Group. In general, the price of our products is determined based on the following factors: (i) the price of the raw materials; (ii) in respect of assembled piping solutions, the product specifications, functional and quality requirements, complexity of the assembled piping solutions and production process, costs, sales volume, lead time and delivery schedules required by our customers; (iii) the competitive landscape of the market and prices of our competitors' products; and (iv) payment terms. Changes in our gross profit margin during the Track Record Period primarily reflected the changes in ASP, the cost of raw materials as well as the revenue contribution and product mix. The details for the fluctuations in the gross profit margin by segments are further discussed below.

(i) Standard prefabricated pipe nipples

Gross profit margin of standard prefabricated pipe nipples increased from approximately 37.0% for the year ended 31 December 2016 to approximately 40.8% for the year ended 31 December 2017. The increase in gross profit margin was mainly due to the increase in average selling price outweighed the increase in average cost of raw materials. Gross profit margin of standard prefabricated pipe nipples remained relatively stable at approximately 40.8% and 42.5% for the years ended 31 December 2017 and 2018, respectively and remained relatively stable at approximately 40.4% and 42.8% for the five months ended 31 May 2018 and 2019, respectively.

(ii) Steel pipes products

(a) ERW steel pipes

Gross profit margin of ERW steel pipes increased from approximately 8.5% for the year ended 31 December 2016 to approximately 11.3% for the year ended 31 December 2017, mainly due to the reduction in fixed unit cost as a result of our expanded production volume in 2017. Gross profit margin of ERW steel pipes remained relatively stable at approximately 11.3% and 11.6% for the years ended 31 December 2017 and 2018, respectively. Gross profit margin of ERW steel pipes increased from approximately 10.9% for the five months ended 31 May 2018 to approximately 14.6% for the five months ended 31 May 2019, primarily due to the decrease in average cost of raw materials for the five months ended 31 May 2019 as compared to that of 2018.

(b) SSAW steel pipes

Gross profit margin of SSAW steel pipes decreased from approximately 21.7% for the year ended 31 December 2016 to approximately 18.3% for the year ended 31 December 2017, and further decreased to approximately 17.2% for the year ended 31 December 2018, which was mainly due to the increase in the average cost of raw materials outweighed the increase in average selling price as a result of the adoption of a fixed monetary mark-up to the total estimated costs of our SSAW steel pipes under our pricing policy. Gross profit margin of SSAW steel pipes increased from approximately 13.6% for the five months ended 31 May 2018 to approximately 19.3% for the five months ended 31 May 2019, primarily due to (i) decrease in cost of raw materials outweighed the decrease in average selling price; and (ii) decrease in subcontracting fee because we had not engaged subcontractors to provide 3PE coating process during the five months ended 31 May 2019.

(c) Customised steel pipes

Gross profit margin of customised steel pipes increased from approximately 11.4% for the year ended 31 December 2016 to approximately 15.8% for the year ended 31 December 2017, and further increased to approximately 17.9% for the year ended 31 December 2018 mainly due to the reduction in fixed unit cost as a result of our expanded production volume. Gross profit margin of customised steel pipes increased from approximately 14.5% for the five months ended 31 May 2018 to approximately 19.3% for the five months ended 31 May 2019, primarily due to the decrease in cost of raw materials outweighed the decrease in average selling price.

(iii) Design and supply of assembled piping system

Gross profit margin of design and supply of assembled piping system increased from approximately 24.2% for the year ended 31 December 2017 to approximately 29.5% for the year ended 31 December 2018. Gross profit margin of design and supply of assembled piping system increased from approximately 21.6% for the five months ended 31 May 2018 to approximately 25.9% for the five months ended 31 May 2019. We price our products based on the nature for each individual project, taking into the quantity, type and complexity of each project. Such increase in the gross profit margin was mainly due to the higher revenue contribution from projects with higher value.

Other income

Other income mainly represents interest income and government grant. Other income amounted to approximately RMB361,000, RMB64,000, RMB399,000 and RMB555,000 for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

The following table sets forth a breakdown of our other income for the periods indicated:

	For the years ended 31 December			For the five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	83	48	117	57	17
Interest income from a third party	274	—	—	—	—
Government grant	4	16	282	132	538
	361	64	399	189	555

Other gains and losses

Our other gains and losses represent gain on sales of scrap materials, fair value gains on structured bank deposits, fair value gains or loss on foreign currency forward contracts, fair value gains or loss on derivative financial instruments, losses on disposals of property, plant and equipment, net exchange gains or losses and others. We recorded other gains of approximately RMB5.8 million, RMB1.1 million and RMB6.1 million for the years ended 31 December 2016 and 2018 and the five months ended 31 May 2019, respectively, and other losses of approximately RMB0.9 million for the year ended 31 December 2017.

The following table sets forth a breakdown of our other gains and losses for the periods indicated:

	For the years ended 31 December			For the five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other gains and losses					
Gain on sales of scrap materials	3,549	5,132	7,169	2,724	3,288
Fair value gains/(losses) on financial assets at FVTPL					
— structured bank deposits	655	284	267	110	833
— foreign currency forward contracts	—	—	(11,735)	(1,754)	824
Fair value loss/(gain) on derivative financial instruments	—	—	(703)	—	526
Losses on disposals of property, plant and equipment	(899)	(736)	(1,870)	—	(18)
Net exchange gains (losses)	1,533	(5,971)	6,094	(2,300)	353
Others	963	347	1,868	(225)	268
	5,801	(944)	1,090	(1,445)	6,074

Gain on sales of scrap materials

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our gross sales of scrap materials amounted to approximately RMB18.9 million, RMB25.1 million, RMB43.9 million and RMB15.8 million, respectively. Our gain on sales of scrap materials was approximately RMB3.5 million, RMB5.1 million and RMB7.2 million for the years ended 31 December 2016, 2017 and 2018, respectively, which was generally in line with the increase in the sales of our major projects. Our gain on sales of scrap materials increased from approximately RMB2.7 million for the five months ended 31 May 2018 to approximately RMB3.3 million for the five months ended 31 May 2019, mainly due to the increase in production volume.

According to the Frost & Sullivan Report, there is a market for sales of scrap materials in the PRC as the costs of scrap materials are cheaper than unused counterparts. The price of the scrap materials, for example, scrap steel, scrap zine and scrap brass, are generally determined at a discounted price to the market price of unused materials and the buyer of the scrap materials will submit a tender price to the seller, where the customer with the highest tender will win. As such, the market price is determined by the tenders submitted by the customers and the terms of purchase are similar to those under direct sales of our Group's products. For details, please see "Business — Our customer — key contract terms with our direct sales and wholesale customers". Our customers of the sales in scrap materials are mainly manufacturers of metal products, who recycle and reprocess the scrap materials and introduce the scrap into raw material in the production of metal products. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the scrap materials was sold to approximately 40, 60, 65 and 30 customers. Save and except as disclosed in "Continuing Connected Transaction — (C) Continuing Connected Transactions — 3. Products Supply Framework Agreement", where Meide is one of our customers for the sales of scrap materials, to the best knowledge of our Directors after making all reasonable enquiries, our customers for the sales of scrap materials do not have any past or present relationships (including without limitation, family, business, financing and employment) with our Group, our Directors, Shareholder, senior management or any of their respective associates.

Gains on structured bank deposits

Our gains on structured bank deposits were approximately RMB0.7 million, RMB0.3 million, RMB0.3 million and RMB0.8 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. During Track Record Period, we had investments in financial products issued by banks in the PRC. The returns of these deposits are determined by reference to the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets.

Fair value of structured bank deposits were recorded based on future cash flows which were estimated based on estimated return and discounted at a rate that reflects the credit risk of various counterparties. For details, please refer to Note 39(c) "Fair value measurement" of the Accountants' Report set out in Appendix I to this prospectus.

Gains or losses on foreign currency forward contracts

Our net losses on USD to RMB foreign currency forward contracts represented realised losses of approximately nil, nil, RMB12.4 million and realised gains of approximately RMB0.8 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, and unrealised gains of approximately nil, nil, RMB0.6 million and nil on changes in fair value of foreign currency forward contracts for the respective periods.

Fair value changes on foreign currency forward contracts were measured based on future cash flows which were estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates. For details, please refer to Note 39(c) "Fair value measurement" of the Accountants' Report set out in Appendix I to this prospectus. As at the Latest Practicable Date, all the foreign currency forward contracts had expired. For details of risk management, please see "Business — Hedge — For foreign currency forward contracts".

Gains or losses on derivative financial instruments

Our net losses on commodity derivative contracts represented realised losses of approximately nil, nil, RMB0.5 million and realised gains of approximately RMB0.5 million for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, and unrealised losses of approximately nil, nil, RMB0.2 million and nil on changes in fair value of commodity derivative contracts for the respectively periods.

As at 31 December 2018 and 31 May 2019, the commodity derivative contracts were entered into by the Group through Shanghai Futures Exchange for the purpose of reducing its exposure to commodity price risk. These commodity derivative contracts were not accounted for under hedge accounting. Fair value of the commodity derivative contracts was measured by reference to the quoted bid prices in Shanghai Futures Exchange. For details, please refer to Note 27 of the Accountants' Report set out in Appendix I to this prospectus. As at the Latest Practicable Date, we have closed out all of the commodity derivative contracts. For details of risk management, please see "Business — Hedge — For forward purchase of steel coils".

Distribution and selling expenses

Distribution and selling expenses primarily comprise transportation fee, travelling and entertainment, staff costs, promotion and exhibition fee, compensation expense, tender expense and others. Distribution and selling expenses amounted to approximately RMB20.6 million, RMB48.4 million, RMB65.9 million and RMB21.9 million for the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively. As a percentage of total revenue, our distribution and selling expenses accounted for 4.6%, 5.2%, 5.4% and 5.3% during the Track Record Period.

The following table sets forth a breakdown of our distribution and selling expenses for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Transportation fee	14,278	69.2	38,007	78.5	44,130	67.0	17,619	70.3	15,462	70.7
Travelling and entertainment	149	0.7	685	1.4	6,912	10.5	2,358	9.4	1,896	8.6
Staff cost *(Note 3)*	4,651	22.6	5,600	11.5	6,691	10.2	2,194	8.8	3,055	14.0
Promotion and exhibition fee	375	1.8	896	1.8	1,850	2.8	901	3.6	362	1.7
Compensation expense *(Note 1)*	552	2.7	1,371	2.8	1,476	2.2	663	2.6	368	1.7
Tender expense	148	0.7	564	1.2	1,342	2.0	567	2.3	117	0.5
Others *(Note 2)*	471	2.3	1,322	2.8	3,508	5.3	752	3.0	621	2.8
Total	20,624	100.0	48,445	100.0	65,909	100.0	25,054	100.0	21,881	100.0

Notes:

(1) Compensation expense represents compensation paid to our customers due to product quality issue and provision for compensation in relation to warranty provided for our products sold.

(2) Others mainly represent office expense, agency fee, insurance expense, licence fee, service and maintenance charge and others.

(3) Finance cost in relation to guarantee receipts amounted to approximately RMB0.2 million, RMB0.1 million, RMB0.2 million and RMB0.1 million was included in staff cost in distribution and selling expenses for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

Administrative expenses

Administrative expenses primarily comprise staff costs, other taxation, repair and maintenance expense, depreciation and amortisation, professional fee, office expense, travelling and entertainment and others. Administrative expenses amounted to approximately RMB11.7 million, RMB22.6 million, RMB26.2 million and RMB9.4 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. As a percentage of total revenue, our administrative expenses accounted for approximately 2.6%, 2.4%, 2.2% and 2.3% during the Track Record Period.

The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (unaudited)	*%*	*RMB'000*	*%*
Staff cost	3,518	30.0	9,552	42.2	9,800	37.3	3,474	37.6	3,621	38.3
Other taxation	3,637	31.3	4,409	19.5	4,744	18.1	1,918	20.8	1,101	11.6
Repair and maintenance expense	790	6.7	1,578	7.0	2,720	10.4	880	9.5	823	8.7
Depreciation and amortisation	2,499	21.3	2,282	10.1	2,088	8.0	760	8.2	886	9.4
Professional fee	449	3.8	1,295	5.7	1,895	7.2	223	2.4	744	7.9
Office expense	368	3.1	833	3.7	1,639	6.2	489	5.3	791	8.4
Travelling and entertainment	188	1.6	709	3.1	1,152	4.4	398	4.3	800	8.5
Others *(Note)*	262	2.2	1,968	8.7	2,210	8.4	1,103	11.9	680	7.2
Total	11,711	100.0	22,626	100.0	26,248	100.0	9,245	100.0	9,446	100.0

Note: Others mainly represent training expense, licence fee, bank charges and others.

Research and development costs

Research and development costs comprise cost of materials, staff costs, utilities, depreciation and others. Research and development costs comprise all costs that are directly attributable to our research and development activities. Since the criteria for recognition of such costs as an asset are not met, our research and development costs are generally recognised as expenses in the period in which they are incurred.

Our research and development costs amounted to approximately RMB21.9 million, RMB33.8 million, RMB50.0 million and RMB17.6 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. As a percentage of total revenue, our research and development costs accounted for approximately 4.8%, 3.6%, 4.1% and 4.3% during the Track Record Period. Cost of materials mainly consist of steel coils and zinc ingot, and accounted for approximately 80.7%, 79.1%, 77.7% and 71.7% of our total research and development costs for the three years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

The following table sets forth a breakdown of our research and development costs for the periods indicated:

	For the years ended 31 December						For the five months ended 31 May			
	2016		2017		2018		2018		2019	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000* (unaudited)	%	*RMB'000*	%
Cost of materials	17,646	80.7	26,763	79.1	38,843	77.7	12,976	74.9	12,631	71.7
Staff cost	3,673	16.8	6,609	19.5	10,155	20.3	3,926	22.7	4,295	24.4
Utilities	—	0.0	144	0.4	483	1.0	187	1.1	353	2.0
Depreciation	220	1.0	119	0.4	125	0.3	47	0.2	225	1.3
Others	332	1.5	210	0.6	384	0.7	187	1.1	110	0.6
Total	21,871	100.0	33,845	100.0	49,990	100.0	17,323	100.0	17,614	100.0

Impairment losses on trade receivables and contract assets

Impairment losses on trade receivables and contract assets amounted to approximately RMB1.5 million, RMB2.8 million, RMB92,000 and RMB0.5 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

Finance costs

Finance costs mainly comprise interest charges on our interest-bearing bank borrowings and interest-bearing other borrowings from a related party. Finance costs amounted to approximately RMB1.2 million, RMB15.0 million, RMB14.5 million and RMB5.3 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

Taxation charge

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

PRC enterprise income tax

Under the Law of the PRC on Enterprise Income Tax (the "**EIT**") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

Jinan Mech was recognised as a High and New Technology Enterprise in 2017 and the applicable tax rate is 15% from 1 January 2017 to 31 May 2019.

Jinan Ma Steel was recognised as a High and New Technology Enterprise in 2015 and 2018, respectively, and the applicable tax rate is 15% from 1 January 2016 to 31 May 2019.

For the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, our income tax expenses were approximately RMB5.0 million, RMB13.7 million, RMB 17.9 million and RMB6.7 million, respectively; and our effective tax rate for the same period was approximately 17.0%, 15.0%, 15.0% and 17.3%, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

Profit for the year/period

Our profit for the year/period amounted to approximately RMB24.2 million, RMB77.6 million, RMB101.5 million and RMB32.3 million for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively, representing net profit margin of approximately 5.3%, 8.3%, 8.4% and 7.8%, respectively. Excluding the non-recurring listing expenses of approximately RMB4.5 million and RMB6.6 million for the year ended 31 December 2018 and the five months ended 31 May 2019, respectively, our net profit margin for the respective periods was approximately 8.7% and 9.4%.

REVIEW OF HISTORICAL RESULTS OF OPERATIONS

Comparison of the five months ended 31 May 2018 to the five months ended 31 May 2019

Revenue

Our total revenue decreased from approximately RMB444.8 million for the five months ended 31 May 2018 to approximately RMB411.4 million for the five months ended 31 May 2019, representing a decrease of approximately RMB33.4 million, or 7.5%, which was primarily due to the combined effect of:

(i) Standard prefabricated pipe nipples

Our revenue generated from sales of standard prefabricated pipe nipples decreased from approximately RMB149.4 million for the five months ended 31 May 2018 to approximately RMB104.6 million for the five months ended 31 May 2019, representing a decrease of approximately RMB44.8 million, or 30.0%, which was primarily due to the combined effect of (i) the decrease in demand for our products of several major customers for the five months ended 31 May 2019 as compared to that of 2018; and (ii) the ASP for the five months ended 31 March 2019 remained relatively stable as compared to the ASP for the year ended 31 December 2018.

(ii) Steel pipes products

(a) ERW steel pipes

Our revenue generated from sales of ERW steel pipes decreased slightly from approximately RMB138.8 million for the five months ended 31 May 2018 to approximately RMB135.5 million for the five months ended 31 May 2019, representing a decrease of approximately RMB3.3 million, or 2.4%, which was primarily due to the combined effect of (i) the slight decrease in the ASP for the five months ended 31 May 2019 which was mainly driven by the decrease with average purchase price of steel coils; and (ii) the slight decrease in sales volume for the five months ended 31 May 2019 as compared to 2018.

(b) SSAW steel pipes

Our revenue generated from sales of SSAW steel pipes decreased from approximately RMB100.3 million for the five months ended 31 May 2018 to approximately RMB74.8 million for the five months ended 31 May 2019, representing a decrease of approximately

RMB25.5 million, or 25.4%, which was primarily due to (i) decrease in sales volume from approximately 22,600 tons to approximately 17,400 tons, mainly because several contracts were completed in the second half of 2018; and (ii) decrease in ASP, from approximately RMB4,434 per ton to approximately RMB4,297 per ton, mainly driven by the decrease in the average purchase price of steel coils.

(c) Customised steel pipes

Our revenue generated from customised steel pipes increased from approximately RMB47.0 million for the five months ended 31 May 2018 to approximately RMB70.5 million for the five months ended 31 May 2019, representing an increase of approximately RMB23.0 million, or 48.9%, which was due to the combined effect of (i) the increase in sales volume for the five months ended 31 May 2019 as compared to that of 2018 mainly because we have secured orders from several new customers; and (ii) the decrease in the ASP which was mainly driven by the decrease in the average purchase price of steel coils.

(iii) Design and supply of assembled piping system

Our revenue generated from design and supply of assembled piping system increased from approximately RMB2.1 million for the five months ended 31 May 2018 to approximately RMB3.2 million for the five months ended 31 May 2019, representing an increase of approximately RMB1.1 million, or 52.4%, mainly because we secured new projects from new customers in China.

(iv) Others

Our revenue generated from our other products increased from approximately RMB7.2 million for the five months ended 31 May 2018 to approximately RMB23.0 million for the five months ended 31 May 2019, mainly due to the increase in sales of raw materials, to optimise the structure of inventory and manage the stock level in face of price changes.

Cost of sales

Please see "Description of Selected Items in Consolidated Statements of Profit or Loss — Cost of sales" above for the description of changes in cost of sales of our Group for the five months ended 31 May 2018 and 2019.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB2.9 million or 3.0% from approximately RMB96.5 million for the five months ended 31 May 2018 to approximately RMB93.6 million for the five months ended 31 May 2019. Our gross profit margin remained relatively stable at approximately 21.7% and 22.8% for the five months ended 31 May 2018 and 2019, respectively. Please see "Description of Selected Items in Consolidated Statements of Profit or Loss — Gross profit and gross profit margin" above for the description of changes in gross profit and gross profit margin for the five months ended 31 May 2018 and 2019.

Other income

We have insignificant other income of approximately RMB0.2 million and RMB0.6 million for the five months ended 31 May 2018 and 2019, respectively. The increase in other income was mainly due to the increase in government grant because we was recognised as "Gazelle Enterprise" in 2019.

Other gains and losses

We recorded other losses of approximately RMB1.4 million for the five months ended 31 May 2018 as compared to other gains of approximately RMB6.1 million for the five months ended 31 May 2019. Others gains for the five months ended 31 May 2019 was mainly caused by (i) fair value gain on foreign currency forward contracts of approximately RMB0.8 million for the five months ended 31 May 2019 which we had recorded a fair value loss of approximately RMB1.8 million for the same period in 2018; (ii) fair value gain on derivative financial instruments of approximately RMB0.5 million; and (iii) exchange gain of approximately RMB0.4 million as a result of depreciation of RMB against USD for the five months ended 31 May 2019 which we had recorded an exchange loss of approximately RMB2.3 million for the same period in 2018.

Distribution and selling expenses

Distribution and selling expenses decreased by approximately RMB3.2 million or 12.7% from approximately RMB25.1 million for the five months ended 31 May 2018 to approximately RMB21.9 million for the five months ended 31 May 2019. The decrease was primarily due to combined effects of (i) decrease in transportation fee incurred as a result of decrease in sales order received from overseas customers; (ii) decrease in travelling and entertainment as a result of decrease in overseas sales; and (iii) decrease in promotion and exhibition fee. The decrease was partially offset by increase in staff cost as a result of increase in headcount by approximately 15 sales staff.

Administrative expenses

Administrative expenses slightly increased by approximately RMB0.2 million or 2.2% from approximately RMB9.2 million for the five months ended 31 May 2018 to approximately RMB9.4 million for the five months ended 31 May 2019, primarily due to increase in professional fee for the consulting services.

Research and development expenses

Research and development expenses remained relatively stable at approximately RMB17.3 million and RMB17.6 million for the five months ended 31 May 2018 and 2019, respectively.

Finance costs

Finance costs remained relatively stable at approximately RMB5.9 million and RMB5.3 million for the five months ended 31 May 2018 and 2019, respectively.

Taxation charge

Taxation charge increased by approximately RMB0.6 million or 9.8% from approximately RMB6.1 million for the five months ended 31 May 2018 to approximately RMB6.7 million for the five months ended 31 May 2019. The increase was mainly due to increase in our profit before taxation for the five months ended 31 May 2019. Our effective tax rate remained relatively stable at approximately 16.4% and 17.3% for the five months ended 31 May 2018 and 2019, respectively.

Profit for the period

As a result of the foregoing, profit for the period increased by approximately RMB1.0 million or 3.2% from approximately RMB31.3 million for the five months ended 31 May 2018 to approximately RMB32.3 million for the five months ended 31 May 2019. Our net profit margin remained relatively stable at approximately 7.0% and 7.8% for the five months ended 31 May 2018 and 2019, respectively.

Comparison of the year ended 31 December 2018 to the year ended 31 December 2017

Revenue

Our total revenue increased from approximately RMB938.2 million for the year ended 31 December 2017 to approximately RMB1,214.8 million for the year ended 31 December 2018, representing an increase of approximately RMB276.6 million, or 29.5%, which was primarily due to the combined effects of:

(i) Standard prefabricated pipe nipples

Our revenue generated from sales of standard prefabricated pipe nipples increased from approximately RMB293.6 million for the year ended 31 December 2017 to approximately RMB379.3 million for the year ended 31 December 2018, representing an increase of approximately RMB85.7 million, or 29.2%, which was primarily due to (i) the significant increase in ASP in 2018, from approximately RMB12,433 per ton to approximately RMB15,209 per ton, representing an increase of approximately 22.3%, mainly driven by (a) the increased demand for our products, and (b) increase in the average cost of raw materials in 2018; and (ii) a slight increase in sales volume sold, from approximately 23,600 tons to approximately 24,900 tons, of approximately 5.5%, mainly due to the increase in market demands evidenced by new orders from over 20 new customers in 2018.

(ii) Steel pipes products

(a) ERW steel pipes

Our revenue generated from sales of ERW steel pipes increased from approximately RMB267.8 million for the year ended 31 December 2017 to approximately RMB350.4 million for the year ended 31 December 2018, representing an increase of approximately RMB82.6 million, or 30.8%, which was primarily due to (i) the increase in sales volume in 2018, from approximately 60,900 tons to approximately 73,800 tons, or 21.2%, mainly attributable to the demands from 10 customers which included ENN Group, one of our five largest customers for the year ended 31 December 2018, and the remaining included five newly-introduced customers and four recurring customers, of a total of over 17,700 tons which was mainly led by (a) to the best knowledge of our Directors, the increased demand of our customers due to their increase in operation scale; and (b), the increased effort in our sales and marketing; and the increase in ASP in 2018, from approximately RMB4,396 per ton to approximately RMB4,753 per ton, or 8.1%, mainly due to the overall increase in the cost of raw materials in 2018.

(b) SSAW steel pipes

Our revenue generated from sales of SSAW steel pipes increased from approximately RMB249.7 million for the year ended 31 December 2017 to approximately RMB292.2 million for the year ended 31 December 2018, representing an increase of approximately RMB42.5 million, or 17.0%, which was primarily due to (i) the significant increase in ASP, from approximately RMB3,908 per ton to approximately RMB4,447 per ton, or 13.8%, mainly attributable to the overall increase in the cost of raw materials in 2018; and (ii) the slight increase in the sales volume of approximately 2.8%.

(c) Customised steel pipes

Our revenue generated from customised steel pipes increased from approximately RMB114.8 million for the year ended 31 December 2017 to approximately RMB131.6 million for the year ended 31 December 2018, representing an increase of approximately RMB16.8 million, or 14.6%, which was mainly due to the increase in the ASP, driven by the increase in the cost of raw materials.

(iii) Design and supply of assembled piping system

Our revenue generated from design and supply of assembled piping system increased from approximately RMB2.8 million for the year ended 31 December 2017 to approximately RMB10.8 million for the year ended 31 December 2018, representing an increase of approximately RMB8.0 million, or 285.7%, which was mainly due to the increase in projects attributable to the full year contribution of such products and services in 2018.

(iv) Others

Our revenue generated from others increased from approximately RMB9.4 million for the year ended 31 December 2017 to approximately RMB50.6 million for the year ended 31 December 2018, mainly due to the increase in sales of raw materials in 2018, to optimise the structure of inventory and manage the stock level in face of price changes.

Cost of sales

Please see "Description of Selected Items in Consolidated Statements of Profit or Loss — Cost of sales" above for the description of changes in cost of sales of our Group for the years ended 31 December 2017 and 2018.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB64.5 million or 30.0% from approximately RMB214.7 million for the year ended 31 December 2017 to approximately RMB279.2 million for the year ended 31 December 2018. Our gross profit margin remained relatively stable at approximately 22.9% and 23.0% for the years ended 31 December 2017 and 2018, respectively. Please see

"Description of Selected Items in Consolidated Statements of Profit or Loss — Gross profit and gross profit margin" above for the description of changes in gross profit and gross profit margin for the years ended 31 December 2017 and 2018.

Other income

We have insignificant other income of approximately RMB64,000 and RMB399,000 for the years ended 31 December 2017 and 2018, respectively. The increase in other income was mainly due to increase in government grant as a result of receipt of new supports for High and New Technology Enterprise and informatisation of approximately RMB200,000 in 2018.

Other gains and losses

We recorded other losses of approximately RMB0.9 million for the year ended 31 December 2017 as compared to other gains of approximately RMB1.1 million for the year ended 31 December 2018. Other gains for the year ended 31 December 2018 mainly caused by (i) gains on sales of scrap materials of approximately RMB7.2 million which was in line with the increase in sales of our major products; (ii) exchange gain of approximately RMB6.1 million as a result of depreciation of RMB against USD in the second half of 2018 which was exchange loss of approximately RMB6.0 million for the year ended 31 December 2017; and (iii) increase in others mainly due to the guarantee receipts from relevant sales staff of approximately RMB1.2 million which was not returned to the relevant staff due to the related non-recoverable trade receivables. Such gains were partially offset by (i) fair value loss on foreign currency forward contracts of approximately RMB11.7 million; and (ii) fair value loss on derivative financial instruments of approximately RMB0.7 million.

Distribution and selling expenses

Distribution and selling expenses increased by approximately RMB17.5 million or 36.2% from approximately RMB48.4 million for the year ended 31 December 2017 to approximately RMB65.9 million for the year ended 31 December 2018. The increase was primarily due to (i) increase in transportation fee as a result of increase in sales to overseas markets; (ii) increase in travelling and entertainment mainly as a result of (a) the increase in travelling and entertainment activities and headcount of sales department in order to promote both PRC and overseas markets; and (b) the new policy which links the reimbursement limit to the sales performance of each staff; (iii) increase in staff cost as a result of increase in headcount by over 15; (iv) increase in promotion and exhibition fee mainly as a result of printing brochures and designing company website and increase in number of exhibitions participated in 2018; and (v) increase in tender expense for SSAW.

Administrative expenses

Administrative expenses increased by approximately RMB3.6 million or 15.9% from approximately RMB22.6 million for the year ended 31 December 2017 to approximately RMB26.2 million for the year ended 31 December 2018. The increase was primarily due to (i) increase in repair and maintenance as a result of repairment of office building and greening; (ii) increase in professional fee for the consulting and accounting services; and (iii) increase in office expense mainly as a result of installation of new heating system in our factory building.

Research and development expenses

Research and development expenses increased by approximately RMB16.2 million or 47.9% from approximately RMB33.8 million for the year ended 31 December 2017 to approximately RMB50.0 million for the year ended 31 December 2018. The increase was primarily due to (i) full year effect of staff cost as a result of increase in headcount in 2017 by approximately 50 staff; and (ii) increase in number of research and development projects by approximately ten for standard prefabricated pipe nipples and ERW steel pipes.

Finance costs

Finance costs remained relatively stable at approximately RMB15.0 million and RMB14.5 million for the years ended 31 December 2017 and 2018, respectively.

Taxation charge

Taxation charge increased by approximately RMB4.2 million or 30.7% from approximately RMB13.7 million for the year ended 31 December 2017 to approximately RMB17.9 million for the year ended 31 December 2018. The increase was mainly due to increase in our profit before taxation during the year. Our effective tax rate remained relatively stable at approximately 15.0% for each of the years ended 31 December 2017 and 2018.

Profit for the year

As a result of the foregoing, profit for the year increased by approximately RMB23.9 million or 30.8% from approximately RMB77.6 million for the year ended 31 December 2017 to approximately RMB101.5 million for the year ended 31 December 2018. Our net profit margin remained relatively stable at approximately 8.3% and 8.4% for the years ended 31 December 2017 and 2018, respectively.

Comparison of the year ended 31 December 2017 to the year ended 31 December 2016

Revenue

Our total revenue increased from approximately RMB452.3 million for the year ended 31 December 2016 to approximately RMB938.2 million for the year ended 31 December 2017, representing an increase of approximately RMB485.9 million, or 107.4%, which was primarily due to the combined effects of:

(i) Standard prefabricated pipe nipples

Our revenue generated from sales of standard prefabricated pipe nipples increased from approximately RMB52.9 million for the year ended 31 December 2016 to approximately RMB293. 6 million for the year ended 31 December 2017, representing an increase of approximately RMB240.7 million, or 455.0%, which was primarily due to (i) the significant increase in sales volume sold, from approximately 4,700 tons to approximately 23,600 tons, or approximately 402.1% increment, mainly attributable to the full year contribution of the production of standard prefabricated pipe nipples in 2017; and (ii) the increase in average selling price in 2017, mainly resulted from the overall increment in cost of raw materials.

(ii) Steel pipes products

(a) ERW steel pipes

Our revenue generated from sales of ERW steel pipes increased from approximately RMB144.6 million for the year ended 31 December 2016 to approximately RMB267.8 million for the year ended 31 December 2017, representing an increase of approximately RMB123.2 million, or 85.2%, which was primarily due to (i) the increase in sales volume sold, from approximately 46,500 tons to approximately 60,900 tons, or 31.0%, mainly attributable to the increase in the demand from one of our major customers in 2017; and (ii) the increase in ASP, from approximately RMB3,109 per ton to approximately RMB4,396 per ton, or 41.4%, mainly resulted from the overall increment in cost of raw materials in 2017.

(b) SSAW steel pipes

Our revenue generated from sales of SSAW steel pipes increased from approximately RMB189.0 million for the year ended 31 December 2016 to approximately RMB249.7 million for the year ended 31 December 2017, representing an increase of approximately RMB60.7 million, or 32.1%, which was primarily due to the significant increase in ASP, from approximately RMB2,863 per ton to approximately RMB3,908 per ton, or 36.5%, mainly attributable to the overall increase in the cost of raw materials in 2017.

(c) Customised steel pipes

Our revenue generated from customised steel pipes increased from approximately RMB60.4 million for the year ended 31 December 2016 to approximately RMB114.8 million for the year ended 31 December 2017, representing an increase of approximately RMB54.4 million, or 90.1%, mainly due to (i) the increased customer base; and (ii) the increase in ASP, which was mainly driven by the increase in the cost of raw materials in 2017.

(iii) Design and supply of assembled piping system

We started to provide design and supply of assembled piping system in 2017, resulting from revenue generated of approximately RMB2.8 million.

(iv) Others

Our revenue generated from others increased from approximately RMB5.3 million for the year ended 31 December 2016 to approximately RMB9.4 million for the year ended 31 December 2017, mainly due to the sales of raw materials to optimise the structure of inventory and manage the stock level in face of price changes.

Cost of sales

Please see "Description of Selected Items in Consolidated Statements of Profit or Loss — Cost of sales" above for the description of changes in cost of sales of our Group for the years ended 31 December 2016 and 2017.

Gross profit and gross profit margin

Gross profit increased by approximately RMB134.8 million or 168.7% from approximately RMB79.9 million for the year ended 31 December 2016 to approximately RMB214.7 million for the year ended 31 December 2017. Our gross profit margin increased from approximately 17.7% for the year ended 31 December 2016 to approximately 22.9% for the year ended 31 December 2017. Please see "Description of Selected Items in Consolidated Statements of Profit or Loss — Gross profit and gross profit margin" above for the description of changes in gross profit and gross profit margin for the years ended 31 December 2016 and 2017.

Other income

We have insignificant other income of approximately RMB361,000 and RMB64,000 for the years ended 31 December 2016 and 2017, respectively. The decrease in other income was mainly due to the decrease in interest income from a third party as the loan was fully settled in 2016.

Other gains and losses

We recorded other gains of approximately RMB5.8 million for the year ended 31 December 2016 as compared to other losses of approximately RMB0.9 million for the year ended 31 December 2017. Such loss recorded for the year ended 31 December 2017 was mainly due to the combined effect of (i) the net exchange loss of approximately RMB6.0 million as a result of appreciation of RMB against USD which was exchange gain of approximately RMB1.5 million for the year ended 31 December 2016; and (ii) the increase in gain on sales of scrap materials of approximately RMB1.6 million which was generally in line with increase in sales of our major products.

Distribution and selling expenses

Distribution and selling expenses increased by approximately RMB27.8 million or 135.0% from approximately RMB20.6 million for the year ended 31 December 2016 to approximately RMB48.4 million for the year ended 31 December 2017. The increase was primarily due to (i) increase in transportation fee as a result of increase in sales to both PRC customers and overseas customers; and (ii) increase in staff cost as a result of increase in headcount by over 30.

Administrative expenses

Administrative expenses increased by approximately RMB10.9 million or 93.2% from approximately RMB11.7 million for the year ended 31 December 2016 to approximately RMB22.6 million for the year ended 31 December 2017. The increase was primarily due to (i) increase in staff cost as a result of (i) the full year effect of the overall salary increment; (ii) the full year effect of the increase in headcount by over 20 personnel in last quarter of 2016; and (iii) further increase in headcount by approximately 30 personnel during the year ended 31 December 2017; (ii) increase in repair and maintenance expense as a result of repairment of factory buildings; (iii) increase in professional fee in relation to consulting services; (iv) increase in other expenses in relation to (a) incurrence of licence fee mainly for trademarks registration; and (b) increase in bank charges as a result of increase in number of bank transfers incurred in 2017 due to our increase in sales.

Research and development expenses

Research and development expenses increased by approximately RMB11.9 million or 54.3% from approximately RMB21.9 million for the year ended 31 December 2016 to approximately RMB33.8 million for the year ended 31 December 2017. The increase was primarily due to (i) significant increase in headcount by approximately 50; and (ii) increase in budget for research and development expenses as a result of starting new projects to improve our standard prefabricated pipe nipples products.

Finance costs

Finance costs increased by approximately RMB13.8 million or 1,150.0% from approximately RMB1.2 million for the year ended 31 December 2016 to approximately RMB15.0 million for the year ended 31 December 2017. The increase was mainly due to full year effect of increase in borrowings to approximately RMB300.1 million near the end of 2016.

Taxation charge

Taxation charge increased by approximately RMB8.7 million or 174.0% from approximately RMB5.0 million for the year ended 31 December 2016 to approximately RMB13.7 million for the year ended 31 December 2017. The increase was mainly due to increase in our profit before taxation during the year. Our effective tax rate decreased by approximately 2.0% from approximately 17.0% for the year ended 31 December 2016 to approximately 15.0% for the year ended 31 December 2017, mainly because Jinan Mech was recognised as a High and New Technology Enterprise from 1 January 2017 to 31 December 2018 and entitled 15% tax rate.

Profit for the year

As a result of the foregoing, profit for the year increased by approximately RMB53.4 million or 220.7% from approximately RMB24.2 million for the year ended 31 December 2016 to approximately RMB77.6 million for the year ended 31 December 2017. Our net profit margin increased from approximately 5.3% for the year ended 31 December 2016 to approximately 8.3% for the year ended 31 December 2017 which was mainly due to increase in our gross profit as a result of the full year contribution of the sales of standard prefabricated pipe nipples, which has a relatively higher gross profit margin.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for the payment of procurement of inventories from suppliers, staff costs, various operating expenses and capital expenditure and have been funded through a combination of cash generated from our operations and bank and other borrowings. Going forward, we expect to fund our working capital requirements with a combination of various sources, including but not limited to cash generated from our operations, the net proceeds from Global Offering, bank balances, cash and other possible equity and debt financing as and when appropriate.

The following table summarises, for the periods indicated, our consolidated statements of cash flows:

	For the years ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net cash (used in)/generated from operating activities	(24,086)	39,383	111,162	(21,157)
Net cash (used in)/generated from investing activities	(52,790)	(24,090)	(102,043)	49,483
Net cash generated from/(used in) financing activities	125,317	(14,361)	(16,458)	(36,377)
Net increase/(decrease) in cash and cash equivalents	48,441	932	(7,339)	(8,051)
Cash and cash equivalents at beginning of year/period	4,416	52,857	53,789	46,450
Cash and cash equivalents at end of year/period	52,857	53,789	46,450	38,399

Operating activities

During our Track Record Period, our cash inflow from operating activities was principally from the receipt of proceeds for our sale of products. Our cash outflow from operating activities comprised mainly purchases of inventories and operating expenses.

For the five months ended 31 May 2019, our Group had net cash used in operating activities of approximately RMB21.2 million, which was cash used in operations of approximately RMB14.7 million, and offset by income tax paid of approximately RMB6.5 million. Negative changes in working capital mainly reflected by (i) increase in inventories of approximately RMB71.7 million mainly for the anticipation of the demand of peak seasons; (ii) increase in deposits, prepayments and other receivables of approximately RMB13.7 million; (iii) decrease in trade and bills payables of approximately RMB9.6 million as a result of settlement of trade payables to suppliers before period end; and (iv) settlement of amounts due to a related party of approximately RMB11.6 million. Such negative changes in working capital were partially offset by (i) the decrease in trade receivables backed by bills of approximately RMB31.0 million; (ii) the decrease in contract assets of approximately RMB4.6 million; and (iii) the increase in other payables and accrued charges of approximately RMB4.9 million.

For the year ended 31 December 2018, our Group had net cash generated from operating activities of approximately RMB111.2 million, which was cash generated from operations of approximately RMB125.8 million, and offset by income tax paid of approximately RMB14.7 million. Negative changes in working capital mainly reflected by (i) increase in contract assets of approximately RMB11.9 million as a result of products sold in previous year still within the retention period and the accumulation of retention money from new products sold; (ii) decrease in trade and bills payables of approximately RMB33.5 million mainly driven by decrease in purchase of inventory near end of 2018 as compared to that of 2017; and (iii) decrease in amounts due to a related party of approximately RMB15.2 million. Such negative changes in working capital were partially offset by (i) decrease in deposits, prepayments and other receivables of approximately RMB5.9 million; (ii) increase in contract liabilities of approximately RMB11.2 million which related to the timing of delivery of products to our customers and the status as at the respective dates; (iii) increase in other payables and accrued charges of approximately RMB5.6 million; and (iv) increase in refund liabilities of approximately RMB9.4 million.

For the year ended 31 December 2017, our Group had net cash generated from operating activities of approximately RMB39.4 million, which was cash generated from operations of approximately RMB51.2 million, and offset by income tax paid of approximately RMB11.8 million. Negative changes in working capital mainly reflected by (i) increase in inventories of approximately RMB68.5 million as a result of increase in product mix and the increase in revenue in 2017; and (ii) increase in trade receivables and trade receivables backed by bills of approximately RMB74.1 million and RMB27.2 million, respectively, as a result of increase in revenue near end of 2017. Such negative changes in working capital were partially offset by (i) decrease in amounts due from related parties of approximately RMB23.4 million; (ii) increase in trade and bills payables of approximately RMB49.5 million as a result of increase in procurement of raw materials for our production activities as a result of growth of our business operations; (iii) increase in refund liabilities of approximately RMB6.3 million; and (iv) increase in amounts due to a related party of approximately RMB11.9 million as a result of increase in purchase of raw materials in 2017.

For the year ended 31 December 2016, our Group had net cash used in operating activities of approximately RMB24.1 million, which was cash used in operations of approximately RMB21.1 million, and offset by income tax paid of approximately RMB3.0 million. Negative changes in working capital mainly reflected by (i) increase in trade receivables and trade receivables backed by bills of approximately RMB39.9 million and RMB12.1 million, respectively, as a result of increase in revenue near the end of 2016; and (ii) increase in amounts due from related parties of approximately RMB30.2 million; and (iii) decrease in amounts due to a related party of approximately RMB7.6 million. Such negative changes in working capital were partially offset by (i) decrease in inventories of approximately RMB14.1 million; and (ii) increase in trade and bills payables of approximately RMB11.5 million.

Investing activities

During the Track Record Period, our cash inflow from investing activities were principally withdrawal of pledged bank deposits and structured bank deposits. Our cash outflows used in investing activities were principally for purchases of property, plant and equipment, placement of pledged bank deposits and structured bank deposits.

For the five months ended 31 May 2019, our Group had net cash generated from investing activities of approximately RMB49.5 million, primarily attributable to withdrawal of structured bank deposits of approximately RMB166.0 million, which was partially offset by (i) purchase of property, plant and equipment of approximately RMB17.6 million; and (ii) placement of structured bank deposits of approximately RMB94.3 million.

For the year ended 31 December 2018, our Group had net cash used in investing activities of approximately RMB102.0 million, primarily attributable to (i) purchases of property, plant and equipment of approximately RMB24.7 million; and (ii) placement of structured bank deposits of approximately RMB233.5 million, which were partially offset by (i) withdrawal of pledged bank deposit of approximately RMB12.0 million; and (ii) withdrawal of structured bank deposits of approximately RMB151.3 million.

For the year ended 31 December 2017, our Group had net cash used in investing activities of approximately RMB24.1 million, primarily attributable to (i) purchases of property, plant and equipment of approximately RMB8.8 million; (ii) placement of pledged bank deposits of approximately RMB12.0 million; and (iii) placement of structured bank deposits of approximately RMB91.8 million, which were partially offset by withdrawal of structured bank deposits of approximately RMB88.8 million.

For the year ended 31 December 2016, our Group had net cash used in investing activities of approximately RMB52.8 million, primarily attributable to (i) purchases of property, plant and equipment of approximately RMB14.7 million; (ii) placement of structured bank deposits of approximately RMB267.9 million; (iii) advance to an independent third party of approximately RMB6.0 million; and (iv) acquisition of business of approximately RMB91.4 million, which were partially offset by (i) withdrawal of structured bank deposits of approximately RMB320.3 million; and (ii) repayment from an independent third party of approximately RMB6.0 million.

Financing activities

During the Track Record Period, our cash inflows from financing activities were principally from proceeds from borrowings raised. Our cash outflows used in financing activities were principally for the repayment of borrowings, dividend paid and interest paid.

For the five months ended 31 May 2019, our Group had net cash used in financing activities of approximately RMB36.4 million, primarily contributed by (i) repayment of borrowings of approximately RMB130.0 million; and (ii) interest paid of approximately RMB5.1 million, which were partially offset by borrowings raised of approximately RMB100.0 million.

For the year ended 31 December 2018, our Group had net cash used in financing activities of approximately RMB16.5 million, primarily contributed by (i) repayment of borrowings of approximately RMB300.0 million; (ii) interest paid of approximately RMB14.9 million, which were partially offset by borrowings raised of approximately RMB300.0 million; and (iii) issue costs paid of approximately RMB1.5 million.

For the year ended 31 December 2017, our Group had net cash used in financing activities of approximately RMB14.4 million primarily contributed by (i) repayment of borrowings of approximately RMB310.0 million; and (ii) interest paid of approximately RMB14.4 million, which were partially offset by borrowings raised of approximately RMB310.0 million.

For the year ended 31 December 2016, our Group had net cash generated from financing activities of approximately RMB125.3 million, primarily contributed by borrowings raised of approximately RMB420.2 million, which were partially offset by (i) repayment of borrowings of approximately RMB120.2 million; (ii) repayment to related parties of approximately RMB151.0 million; and (iii) dividend paid of approximately RMB22.6 million.

Net Current Assets and Liabilities

The following table sets forth the breakdown of our current assets and current liabilities as at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019:

	As at 31 December			As at 31 May	As at 30 September
	2016	2017	2018	2019	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Current assets					
Inventories	114,236	181,759	177,827	248,481	217,349
Trade receivables	94,645	165,954	165,181	165,764	166,358
Trade receivables backed by bills	20,753	47,903	50,170	19,152	43,513
Contract assets	4,662	7,102	18,774	13,953	20,060
Deposits, prepayments and other receivables	42,877	45,084	40,722	56,153	71,078
Amounts due from related parties	30,200	6,801	4,392	408	3,133
Financial assets at fair value through profit or loss ("**FVTPL**")	1,000	4,000	86,843	14,500	12,500
Pledged bank deposits	—	12,009	3,284	5,201	5,003
Bank balances and cash	52,857	53,789	46,450	38,399	57,411
	361,230	524,401	593,643	562,011	596,405
Current liabilities					
Trade and bills payables	35,630	85,116	51,570	41,862	43,600
Contract liabilities	3,877	5,213	16,402	16,060	25,342
Derivative financial instruments	—	—	179	—	—
Refund liabilities	—	6,345	15,781	10,928	5,540
Other payables and accrued charges	16,651	20,391	25,996	31,700	24,805
Amounts due to a related party	14,845	26,751	11,559	—	2
Amounts due to shareholders/former shareholders	—	—	—	162,670	162,670
Provisions	—	1,210	1,337	1,597	1,458
Tax payable	529	781	4,094	3,929	4,961
Borrowings	300,078	300,674	300,247	270,335	259,285
Lease liabilities	—	—	730	762	788
	371,610	446,481	427,895	539,843	528,451
Net current (liabilities)/assets	(10,380)	77,920	165,748	22,168	67,954

As at 31 December 2016, we recorded net current liabilities of approximately RMB10.4 million, mainly attributable to the increase in borrowings to approximately RMB300.1 million near the end of 2016 for conducting its ordinary course of business.

We recorded net current liabilities of approximately RMB10.4 million as at 31 December 2016 as compared to net current assets of approximately RMB77.9 million as at 31 December 2017, primarily due to (i) increase in inventories of approximately RMB67.5 million as a result of increase in product mix after acquisition of standard prefabricated pipe nipple business in November 2016 and starting provision of design and supply of assembled piping system in 2017 and the increase in revenue in 2017; (ii) increase in trade receivables and trade receivables backed by bills of approximately RMB71.3 million and RMB27.2 million, respectively, as a result of increase in sales near the end of 2017; and (iii) increase in pledged bank deposits of approximately RMB12.0 million. Such increase was partially offset by (i) decrease in amounts due from related parties of approximately RMB23.4 million as a result of decrease in sales of pipe products to Meide Group near end of 2017; (ii) increase in trade and bills payables of approximately RMB49.5 million as a result of increase in the procurement of raw materials for our production activities; (iii) increase in refund liabilities, which was driven by the increase in sales volume of approximately RMB6.3 million; and (iv) increase in amounts due to a related party of approximately RMB11.9 million as a result of increase in purchase of raw materials in 2017.

Our net current assets increased from approximately RMB77.9 million as at 31 December 2017 to approximately RMB165.7 million as at 31 December 2018, primarily due to (i) increase in contract assets of approximately RMB11.7 million because the products sold in previous year are still within the retention period and the accumulation of retention money from new products sold; (ii) increase in financial assets at FVTPL, which was mainly attributable to increase in investment in structured bank deposits, of approximately RMB82.8 million; (iii) decrease in trade and bills payables of approximately RMB33.5 million mainly driven by decrease in purchase of inventory near end of 2018 as compared to that of 2017; and (iv) decrease in amounts due to a related party of approximately RMB15.2 million as a result of decrease in purchase of raw materials from Meide Group. Such increase was partially offset by (i) decrease in deposits, prepayments and other receivables of approximately RMB4.4 million as a result of use of input VAT recoverable; (ii) decrease in pledged bank deposits of approximately RMB8.7 million; (iii) decrease in bank balances and cash of approximately RMB7.3 million; and (iv) increase in contract liabilities, which was related to timing of delivery of products to our customers, of approximately RMB11.2 million; (v) increase in refund liabilities, which was driven by the increase in sales volume, of approximately RMB9.4 million; and (vi) increase in other payables and accrued charges of approximately RMB5.6 million as a result of (a) increase in other tax payable and (b) increase in transportation cost payable due to the increase in sales volume to overseas customers.

Our net current assets decreased from approximately RMB165.7 million as at 31 December 2018 to approximately RMB22.2 million as at 31 May 2019, primarily due to (i) increase in amounts due to shareholders/former shareholders as a result of transfer of the entire equity interest of Jinan Mech to Tube Industry Investments as part of the Reorganisation of approximately RMB162.7 million which was fully settled by Tube Industry Investments borrowing a loan amounted to approximately RMB162.7 million from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI while the loan was then fully settled by Tube Industry Investments allotting and issuing 10,000 ordinary shares to Guan Dao Investments; (ii) decrease in financial assets at FVTPL of approximately RMB72.3 million as a result of decrease in investment in structured bank deposits for purposes including repayment of bank borrowing and purchase of inventories for conducting our ordinary course of business; (iii) decrease in trade receivables backed by bills of approximately RMB31.0 million as a result of settlement made prior to the period end; and (iv) decrease in bank balances and cash of approximately RMB8.1 million. Such decrease was partially offset by (i) increase in inventories of approximately RMB70.7 million; (ii) decrease in borrowings of approximately RMB29.9 million as a result of repayment of the borrowings; and (iii) increase in deposits, prepayments and other receivables of approximately RMB15.4 million as a result of increase in advance payment for materials and other tax recoverable due to increase purchase of raw materials.

Our net current assets increased from approximately RMB22.2 million as at 31 May 2019 to approximately RMB68.0 million as at 30 September 2019, primarily due to (i) increase in trade receivables backed by bills of approximately RMB24.4 million; (ii) increase in bank balances and cash of approximately RMB19.0 million; (iii) increase in deposits, prepayments and other receivables of approximately RMB14.9 million; and (iv) decrease in borrowings of approximately RMB11.1 million as a result of repayment of the borrowings. Such increase was partially offset by decrease in inventories of approximately RMB31.1 million.

Working Capital

Our Directors confirm that, taking into consideration of the internal resources and banking facilities presently available to our Group, including cash generated from our operation, the financial resources and the estimated net proceeds to be received from the Global Offering, and further bank and other borrowings going forward, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Save as disclosed in this prospectus, our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of Proceeds".

DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Inventories

Our inventories consist of raw materials, work in progress and finished goods. To minimise the risk of building up inventory, we review our inventory levels on a monthly basis. We believe that maintaining appropriate levels of inventories helps us deliver our products to meet the market demands in a timely manner without straining our liquidity.

The following table sets forth a summary of our inventory balance as at the dates indicated:

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	61,725	85,123	72,464	79,558
Work in progress	8,495	42,614	50,925	63,132
Finished goods	44,016	54,022	54,438	105,791
	114,236	181,759	177,827	248,481

The following table sets forth the inventory aging analysis as at the dates indicated:

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	63,271	81,088	98,168	132,717
31–90 days	42,412	70,921	46,332	67,344
91–180 days	5,215	24,608	18,432	37,550
Over 180 days	3,338	5,142	14,895	10,870
	114,236	181,759	177,827	248,481

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Our balance of inventories increased by approximately RMB67.6 million or 59.2% from approximately RMB114.2 million as at 31 December 2016 to approximately RMB181.8 million as at 31 December 2017, which was mainly driven by increase in product mix and the increase in revenue in 2017. Our balance of inventories then remained relatively stable at approximately RMB181.8 million and RMB177.8 million as at 31 December 2017 and 2018, respectively. Our balance of inventories further increased to approximately RMB248.5 million as at 31 May 2019, mainly for the anticipation of the demand of peak seasons. As our products are generally applied in HAVC systems, most of our sales are conducted between March to October to prepare for the demand in heating during winter. Therefore, we stored more inventories as at 31 May 2019 as compared to 31 December 2018, because we recorded higher sales from March to October based on our Directors' past experience.

We also periodically review our inventory levels for slow-moving inventory, obsolescence or decline in market value. Allowance is made when the net realisable value of inventories falls below the cost or any of the inventories is identified as obsolete. During the Track Record Period, an allowance for impairment of approximately RMB1.0 million, RMB1.0 million, RMB3.5 million and RMB1.0 million was recorded for the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively.

The following table sets forth the turnover days of our inventories for the periods indicated:

	For the years ended 31 December			For the five months ended 31 May
	2016	2017	2018	2019
Average turnover days of inventories (net of provision) *(Note)*	91	75	70	102

Note: Average turnover days of inventories (net of provision) is derived by dividing the arithmetic mean of the opening and closing balances of inventories (net of provision) for the relevant years/period by cost of sales and multiplying by 365 or 151 days.

Our average turnover days of inventories (net of provision) decreased from 91 days for the year ended 31 December 2016 to 75 days for the year ended 31 December 2017, mainly due to increase in usage of inventories as a result of increase in sales. Our average turnover days of inventories (net of provision) further decreased to 70 days for the year ended 31 December 2018, mainly due to the new inventory policy effective in 2018 which led to a better inventory control. Our average turnover days of inventories (net of provision) increased to 102 days for the five months ended 31 May 2019, mainly due to the relatively higher inventory level as at 31 May 2019. As our products are generally applied in HAVC systems, most of our sales are conducted between March to October to prepare for the demand in heating during winter. Therefore, we stored more inventories as at 31 May 2019 as compared to 31 December 2018, because we recorded higher sales from March to October based on our Directors' past experience.

As at 30 September 2019, approximately RMB233.1 million or 93.8% of our inventories as at 31 May 2019 had been sold or utilised.

Trade receivables and trade receivables backed by bills

Our trade receivables and trade receivables backed by bills primarily consist of trade receivables from customers in connection with the sales of products.

The following table sets forth our trade receivables and trade receivables backed by bills as at the dates indicated:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	98,214	172,096	171,464	172,324
Less: allowance of impairment loss	(3,569)	(6,142)	(6,283)	(6,560)
Total trade receivables, net	94,645	165,954	165,181	165,764
Trade receivables backed by bills	20,753	47,903	50,170	19,152
	115,398	213,857	215,351	184,916

Our trade receivables increased from approximately RMB98.2 million as at 31 December 2016 to approximately RMB172.1 million as at 31 December 2017, mainly due to increase in sales near the end of 2017. Our trade receivables remained relatively stable at approximately RMB171.5 million and RMB172.3 million as at 31 December 2018 and 31 May 2019, respectively.

Allowance of impairment loss increased from approximately RMB3.6 million as at 31 December 2016 to approximately RMB6.1 million as at 31 December 2017 which was in line with increase in trade receivables. Allowance of bad and doubtful debts remained relatively stable at approximately RMB6.3 million and RMB6.6 million as at 31 December 2018 and 31 May 2019, respectively.

Trade receivables backed by bills increased from approximately RMB20.8 million as at 31 December 2016 to approximately RMB47.9 million as at 31 December 2017, mainly due to our increased sales near the end of 2017. Our trade receivables backed by bills remained relatively stable at approximately RMB50.2 million as at 31 December 2018. Our trade receivables backed by bills then decreased to approximately RMB19.2 million as at 31 May 2019, primarily due to the settlement made prior to the period end.

Our Group's trading terms with our customers are mainly on credit. Before accepting any new customers, our Group will assess the potential customer's credit quality and define its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. The credit period is generally for a period of 0 to 180 days for customers. Each customer has a maximum credit limit. Our Group seeks to maintain strict control over its outstanding. Overdue balances are reviewed regularly by senior management. During the Track Record Period, we typically do not require any collateral as security.

For the year ended 31 December 2016 and 2017, our policy for impairment on trade receivables is based on an evaluation of collectability and aging analysis of the receivables that requires the use of judgment and estimates of our management. Provisions would apply to the receivables when there are events or changes in circumstances which indicate that the balances may not be collectible. Our management closely reviews the trade receivables balances and any overdue balances on an ongoing basis, and assessments are made by our management on the collectability of overdue balances. After fully considering the nature of trade receivables and their collectability on a case-by-case basis, we have made provisions for the impairment of certain long overdue trade receivables in order to ensure the quality of our assets.

For the year ended 31 December 2018 and the five months ended 31 May 2019, our Group calculates expected credit losses for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The individual assessment and provision matrix are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The following table sets forth the aging analysis of our trade receivables presented based on invoice dates and net of allowance for impairment losses (if any), as at the dates indicated:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables				
0–60 days	51,309	113,221	108,918	109,073
61–180 days	23,770	44,691	50,498	46,279
181 days–1 year	19,445	3,394	995	7,653
Over 1 year	121	4,648	4,770	2,759
	94,645	165,954	165,181	165,764

As at 31 December 2016 and 2017, trade receivables of approximately RMB36.4 million and RMB23.8 million, respectively, were past due but not impaired. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or there was no historical default of payments by the respective customers. Based on our experience, our Directors were of the view that no impairment allowance was necessary in respect of these overdue balances as there had not been significant change in credit quality of our customers and the balances were considered fully recoverable.

Upon the initial application of HKFRS 9 on 1 January 2018, as part of our Group's credit risk management, our Group applied internal credit rating for its customers. For details of the internal credit rating, please refer to Note 17 to the Accountants' Report in Appendix I to this prospectus.

As at 30 September 2019, approximately RMB152.6 million or 92.1% of our trade receivables outstanding as at 31 May 2019 were settled.

The table below sets forth a summary of average turnover days of trade receivables as at the dates indicated:

	For the years ended 31 December			For the five months ended 31 May
	2016	2017	2018	2019
Average turnover days of trade receivables (net of allowance of impairment loss) [(1)]	61	51	50	62
Average turnover days of trade receivables (net of allowance of impairment loss), trade receivables backed by bills, and contract assets[(2)]	77	66	68	79

(1) Average turnover days of trade receivables (net of allowance of impairment loss) is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables (net of allowance of impairment loss) for the relevant years/period by revenue and multiplying by 365 or 151 days.

(2) Average turnover days of trade receivables (net of allowance of impairment loss), trade receivables backed by bills, and contract assets is derived by dividing the arithmetic mean of the opening and closing balances of trade receivables (net of allowance of impairment loss), trade receivables backed by bills, and contract assets for the relevant years/period by revenue and multiplying by 365 or 151 days.

Our average turnover days of trade receivables (net of allowance of impairment loss) decreased from 61 days for the year ended 31 December 2016 to 51 days for the year ended 31 December 2017, mainly due to increase in trade receivables from overseas customers which are granted shorter credit period in general. Our average turnover days of trade receivables (net of allowance of impairment loss) remained relatively stable at 50 days for the year ended 31 December 2018. Our average turnover days then increased to 62 days for the five months ended 31 May 2019, primarily due to the relatively higher trade receivables as at 31 May 2019.

Our average turnover days of trade receivables (net of allowance of impairment loss), trade receivables backed by bills, and contract assets decreased from 77 days for the year ended 31 December 2016 to 66 days for the year ended 31 December 2017, mainly due to increase in trade receivables from overseas customers which are granted shorter credit period in general. Our average turnover days of trade receivables (net of allowance of impairment loss), trade receivables backed by bills, and contract assets remained relatively stable at 68 days for the year ended 31 December 2018. Our turnover days of trade receivables (net of allowance of impairment loss) increased to 79 days for the five months ended 31 May 2019, primarily due to the relatively higher trade receivables and contract assets as at 31 May 2019.

Contract assets

A contract asset represents our Group's right to consideration in exchange for goods that our Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents our Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

The contract assets primarily relate to our Group's right to consideration for work completed and not billed under the relevant contracts, and their rights are conditioned on the factors other than passage of time. The contract assets are transferred to trade receivables when the rights become unconditional other than passage of time.

Our Group typically agrees to a retention period ranging from 6 to 24 months for 5% or 10% of the contract value with certain customers in accordance with the terms specified in the relevant contracts.

The following tables set forth a breakdown of our retention receivables to be settled, based on the completion of defects liability period, as at the dates indicated:

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Retention receivables on sales of pipe products	4,662	7,102	19,026	14,407
Less: allowance for impairment loss	—	—	(252)	(454)
	4,662	7,102	18,774	13,953

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	4,194	6,204	15,069	10,826
Over one year	468	898	3,705	3,127
Retention receivables on sales of pipe products	4,662	7,102	18,774	13,953

Our contract assets were approximately RMB4.7 million, RMB7.1 million, RMB18.8 million and RMB14.0 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. The continuous increase in contract assets as at 31 December 2016, 2017 and 2018 was primarily because (i) the products sold in previous year are still within the retention period; and (ii) the accumulation of retention money from new products sold. The decrease in contract assets as at 31 May 2019 was mainly due to receipt of retention receivables.

As at Latest Practicable Date, approximately RMB3.7 million or 26.5% of contract assets as at 31 May 2019 had been fully certified.

Deposits, Prepayments and other receivables

Our prepayments, deposits and other receivables comprise advance payment for materials, other tax recoverable, prepayments such as prepaid staff disbursement and professional fees, deposits paid to suppliers, deferred issue cost in relation to listing expenses and other receivables. As at 31 December 2016, 2017 and 2018 and 31 May 2019, we have deposits, prepayments and other receivables of approximately RMB42.9 million, RMB45.1 million, RMB40.7 million and RMB56.2 million, respectively.

The following table sets forth the breakdown of our deposits, prepayments and other receivables as at the dates indicated:

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advance payment for materials	17,988	33,867	35,688	41,523
Other tax recoverable	22,409	7,336	852	6,150
Prepayments	123	2,426	1,544	2,459
Deposits paid to suppliers	2,132	272	656	1,897
Deferred issue cost	—	—	1,508	3,261
Other receivables	225	1,183	474	863
Total	42,877	45,084	40,722	56,153

Our deposits, prepayments and other receivables increased by approximately RMB2.2 million from approximately RMB42.9 million as at 31 December 2016 to approximately RMB45.1 million as at 31 December 2017 that was mainly due to the increase in advance payment for materials by approximately RMB15.9 million mainly as a result of increased purchase of raw materials, and partially offset by decrease in other tax recoverable by approximately RMB15.1 million which was mainly contributed by use of input VAT recoverable. Our deposits, prepayments and other receivables then decreased to approximately RMB40.7 million as at 31 December 2018 that was mainly attributable to decrease in other tax recoverable by approximately RMB6.5 million mainly as a result of use of input VAT recoverable, and partially set off by increase in the advance payment for materials by approximately RMB1.8 million. Our deposits, prepayments and other receivables increased to approximately RMB56.2 million as at 31 May 2019, primarily due to (i) increase in advance payment for materials and other tax recoverable by approximately RMB5.8 million and RMB5.3 million, respectively, as a result of increased purchase of raw materials; and (ii) increase in deferred issue cost by approximately RMB1.8 million.

Amounts due from/(to) related parties

Our amounts due from related parties amounted to approximately RMB30.2 million, RMB6.8 million, RMB4.4 million and RMB0.4 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively, whereas as at the respective dates, our amounts due to a related party amounted to approximately RMB14.8 million, RMB26.8 million, RMB11.6 million and nil.

Our amounts due from related parties decreased from approximately RMB30.2 million as at the year ended 31 December 2016 to approximately RMB6.8 million as at the year ended 31 December 2017, primarily due to decrease in sales of pipe products to Meide Group near end of 2017. Our amounts due from related parties decreased to approximately RMB4.4 million as at 31 December 2018, mainly attributable to improvement in control in collection of our amounts due from related parties. Our amounts due from related parties further decrease to approximately RMB0.4 million, mainly attributable to the settlement before the period end.

Our amounts due to a related party increased from approximately RMB14.8 million as at 31 December 2016 to approximately RMB26.8 million as at 31 December 2017, mainly attributable to the increase in purchase of raw materials in 2017. Our amounts due to a related party then decreased to approximately RMB11.6 million as at 31 December 2018, primarily due to decrease in purchase of raw materials in 2018. Our amounts due to a related party further decreased to nil as at 31 May 2019, mainly due to settlement made before 31 May 2019.

All our amounts due from/(to) related parties were trade nature, unsecured, interest-free and repayable on demand. For further details of related party transactions and balances, please refer to Note 34 and Note 22 of the Accountants' Report in Appendix I to this prospectus.

Financial assets at FVTPL

Our financial assets at fair value through profit or loss comprises structured bank deposits and foreign currency forward contracts. Our financial assets at fair value through profit or loss increased from approximately RMB1.0 million as at 31 December 2016 to approximately RMB4.0 million as at 31 December 2017, and further increased to approximately RMB86.8 million as at 31 December 2018. Such increase was primarily attributable to increase in investment in structured bank deposits. Our financial assets at fair value through profit or loss then decreased to approximately RMB14.5 million, mainly due to decrease in investment in structured bank deposits for purposes including (i) repayment of borrowing; and (ii) purchase of inventories for conducting our ordinary course of business.

Structured Bank Deposit

The structured bank deposits are placed with banks in the PRC and are short-term investments with no predetermined or guaranteed return and are not principal protected. The return of these deposits are determined by reference to the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets. For details of the investment policy, please see "Investment Policy" above.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used):

Financial assets	Fair values as at 31 December			Fair value as at 31 May	Fair value hierarchy	Basis of fair value measurement	Significant unobservable input	Relationship of unobservable inputs to fair value
	2016	2017	2018	2019				
Structured bank deposits at FVTPL	RMB1,000,000	RMB4,000,000	RMB86,200,000	RMB14,500,000	Level 3	Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties.	Estimated return	The higher the estimated return, the higher the fair value, vice versa

Note:

A 5% decrease in the estimated return rates holding all other variables constant would decrease the carrying amount of the structured bank deposits at FVTPL by nil, nil, RMB9,000 and RMB43,000 as at 31 December 2016, 2017 and 2018 and 31 May 2019.

A 5% increase in the estimated return rates holding all other variables constant would increase the carrying amount of the structured bank deposits at FVTPL by nil, nil, RMB9,000 and RMB43,000 as at 31 December 2016, 2017 and 2018 and 31 May 2019.

Reconciliation of Level 3 Measurements

The following table represents the reconciliation of Level 3 Measurements throughout the Track Record Period:

	Structured bank deposits at FVTPL
	RMB'000
At 1 January 2016	53,400
Purchase	267,850
Redemption	(320,905)
Net gain	655
At 31 December 2016	1,000
Purchase	91,800
Redemption	(89,084)
Net gain	284
At 31 December 2017	4,000
Purchase	233,450
Redemption/disposal	(151,517)
Net gain	267
At 31 December 2018	86,200
Purchase	94,300
Redemption/disposal	(166,833)
Net gain	833
At 31 May 2019	14,500

Our Group has established and implemented internal policies and procedures in relation to the level 3 financial instruments. Our finance department performs a valuation of level 3 financial instruments for financial reporting purposes. It manages the valuation exercise of the investments on a case-by-case basis. Our finance department uses valuation techniques to determine the fair value of our level 3 instruments and reports to senior management and our Directors.

Our Directors are satisfied with the valuation exercise for financial assets categorised as level 3 financial instruments in its historical financial information for the purpose of preparing the historical financial information.

The Reporting Accountants have undertaken an independent audit on our Group's financial information underlying the Accountants' Report in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants and examined the financial information in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 for the purpose of giving a true and fair view of our Group's financial information included in the Accountants' Report as a whole.

In relation to the valuation of financial assets categorised within level 3 of the fair value measurement, the Sole Sponsor have conducted relevant due diligence works, including (i) review of relevant notes in the Accountants' Report as contained in Appendix I to this prospectus and relevant documents provided by our Company; and (ii) discussed with the management of our Company about the key basis and assumptions for the valuation of the said financial assets. Having considered (i) the valuation work performed by our Company during the Track Record Period for the financial assets categorised as level 3 financial instruments; (ii) our Directors' view; (iii) the unqualified opinion on the historical financial information of our Group as a whole issued by our reporting accountants included in Appendix I to this prospectus; and (iv) the relevant due diligence works done as stated above, nothing has come to the Sole Sponsor's attention that would cause them to disagree with the valuation of financial assets categorised within level 3 of the fair value measurement.

Foreign Currency Forward Contracts

Our Group entered into USD to RMB net-settled foreign currency forward contracts with banks in the PRC in order to manage our Group's currency risk. Our Directors confirmed that the foreign exchange hedge activities conducted by us during the Track Record Period were to reduce the risk exposure of our Group as a result of fluctuation in foreign currency.

During the Track Record Period, a portion of our Group's revenue derived from our export sales and our overseas sales were primarily denominated in USD, while our cost of sales was primarily denominated in RMB. In order to hedge the expected appreciation of RMB against USD, for the year ended 31 December 2018 and five months ended 31 May 2019, we entered into certain foreign exchange forward contracts.

The foreign currency forward contracts were entered into with banks in the PRC with most of the maturity period ranged from one to four months. These foreign currency forward contracts were not accounted for under hedge accounting.

As at 31 December 2018 and 31 May 2019, our Group has foreign currency forward contracts with fair value of approximately RMB0.6 million and nil, respectively. The fair value of the foreign currency forward contracts has been measured based on future cash flows which are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates. As at 31 December 2018, the notional principal amount of the outstanding foreign currency forward contracts was approximately USD9.5 million (equivalent to approximately RMB63.3 million).

During the year ended 31 December 2018, certain foreign currency forward contracts have been expired, which resulted a realised loss of approximately RMB12.4 million. Our Group also incurred unrealised gain of approximately RMB0.6 million for the unexpired foreign currency forward contracts during the year ended 31 December 2018. During the five months ended 31 May 2019, all foreign currency forward contracts have been expired, which resulted a realised gain of approximately RMB0.8 million.

As at the Latest Practicable Date, all the foreign currency forward contracts have been expired. For details of risk management, please see "Business — Hedge — For foreign currency forward contracts".

Trade and bills payables

Our trade and bills payables are derived primarily from payables relating to supplier for purchase of raw materials for our production. During the Track Record Period, the average credit terms offered to our Group is 30 days. Trade and bills payables as at 31 December 2016, 2017 and 2018 and 31 May 2019 were approximately RMB35.6 million, RMB85.1 million, RMB51.6 million and RMB41.9 million, respectively.

The following table sets forth our trade and bills payable as at the dates indicated:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	35,630	57,020	51,570	41,862
Bills payables	—	28,096	—	—
	35,630	85,116	51,570	41,862

Our trade and bills payables increased from approximately RMB35.6 million as at 31 December 2016 to approximately RMB85.1 million as at 31 December 2017, primarily attributable to increase in the procurement of raw materials for our growth of production activities. Our trade and bills payable then decreased to approximately RMB51.6 million as at 31 December 2018 which was primarily driven by decrease in purchase of raw materials near the end of 2018 as compared to that of 2017. Our trade and bills payable further decreased to approximately RMB41.9 million as at 31 May 2019, mainly due to settlement of trade payables to suppliers before the period end.

The table below sets forth, as at the end of reporting periods indicated, the aging analysis of our trade payables, based on invoice date:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	21,677	33,291	24,120	21,266
31–60 days	2,339	3,289	7,755	7,781
61–120 days	1,070	17,279	7,720	6,859
121–180 days	693	1,320	5,398	2,356
181–360 days	7,062	840	5,346	2,008
Over 360 days	2,789	1,001	1,231	1,592
	35,630	57,020	51,570	41,862

The following table sets out the average trade payables turnover days for the Track Record Period:

	For the years ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
Average turnover days of trade payables [(1)]	29	23	21	23

(1) Average turnover days of trade payables is derived by dividing the arithmetic mean of the opening and closing balances of trade payables for the relevant years/period by cost of sales and multiplying 365 or 151 days in the relevant year/period.

Average trade payables turnover days was 29 days, 23 days, 21 days and 23 days for the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively, which reflected our prompt settlement as a result of more effective liquidity management. Our Directors confirm that there has been no delay or default in repayment of trade and bills payments during the Track Record Period.

As at 30 September 2019, approximately RMB36.2 million or 86.5% of trade payables outstanding as at 31 May 2019 had been fully settled.

Contract liabilities

Contract liabilities represent our Group's obligation to transfer goods to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer. Our contract liabilities represent advanced payments received from the customers for goods that have not yet been transferred to the customers. Our contract liabilities increased from approximately RMB3.9 million as at 31 December 2016 to approximately RMB5.2 million as at 31 December 2017, and further increased to approximately RMB16.4 million as at 31 December 2018 and remained relatively stable at approximately RMB16.1 million as at 31 May 2019. Fluctuations in contract liabilities are related to the timing of delivery of products to our customers, and the status as at the respective dates.

Derivative financial instruments

During the Track Record Period, our cost of sales comprises a significant portion of steel coils. For each of the three years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, cost of steel coils amounted to approximately 68.9%, 62.5%, 63.5% and 61.0% of our total cost of sales, respectively. Since the price of steel coils might be volatile and susceptible to fluctuation, similar to many manufacturers which use steel coils as raw materials in the production process, we started to enter into certain commodity derivative contracts for the year ended 31 December 2018.

During the year ended 31 December 2018, certain commodity derivative contracts have been closed out, which resulted a realised loss of approximately RMB0.5 million. Our Group also incurred unrealised loss of approximately RMB0.2 million for the unexpired commodity derivative contracts during the year ended 31 December 2018. During the five months ended 31 May 2019, all commodity derivative contracts have been closed out, which resulted a realised gain of approximately RMB0.5 million. These commodity derivative contracts were not accounted for under hedge accounting. As at 31 December 2018 and 31 May 2019, our Group has commodity derivative contracts with fair value of approximately RMB0.2 million and nil, respectively. The fair value of the commodity derivative contracts has been estimated by reference to the quoted bid prices in Shanghai Futures Exchange.

As at the Latest Practicable Date, all the commodity derivative contracts have been closed out. Our commodity activities were managed and overseen by our management team and procurement team as stated in "Business — Hedge — For forward purchase of steel coils". Our Directors confirmed that the derivative financial instruments conducted by us during the Track Record Period were to reduce the risk exposure of our Group as a result of fluctuation in price of steel coils.

Refund liabilities

Our refund liabilities mainly represent rebate payable to our customers as sales exceeded specified sales volume. Our refund liabilities increased from nil as at 31 December 2016 to approximately RMB6.3 million as at 31 December 2017, and further increased to approximately RMB15.8 million as at 31 December 2018, mainly driven by continuous increase in sales volume. Our refund liabilities then decreased to approximately RMB10.9 million as at 31 May 2019, primarily due to (i) settlement made; and (ii) decrease in revenue.

Other payables and accrued charges

The table below sets forth, as at the end of reporting periods indicated, the breakdown of our other payables and accrued charges:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Staff costs payable	3,835	5,610	4,840	5,518
Other tax payable	1,699	2,751	4,969	2,597
Transportation cost payable	398	1,126	4,792	5,631
Deposits received from suppliers	3,332	3,407	1,079	1,288
Guarantee receipts from staff on trade receivables	4,151	4,843	5,526	5,863
Government grant received	—	—	1,247	1,237
Accrued listing and issue costs	—	—	—	839
Accrued charges	3,236	1,943	3,111	8,391
Agency fee payable	—	711	432	336
	16,651	20,391	25,996	31,700

Our other payables and accrued charges comprise staff cost payable, other tax payable such as value-added tax payable, transportation cost payable, deposits received from suppliers, guarantee receipts which representing guarantee received by our Group from relevant sales staff as guarantee on certain trade receivables, government grant received, accrued charges and agency fee payable in relation to new overseas customers referred to our Group. Regarding the guarantee receipts, once the trade receivables are considered non-recoverable, the related guarantee receipts from the relevant sales staff would be deducted accordingly. The guarantee receipts are interest bearing. For each of the three years ended 31 December 2018 and the five months ended 31 May 2019, the interest rate was 5.0%, 5.0%, 4.0% to 5.0% and 4.0%, respectively. Our other payables and accrued charges increased from approximately RMB16.7 million as at 31 December 2016 to approximately RMB20.4 million as at 31 December 2017, which was mainly attributable to (i) increase in staff cost payable by approximately RMB1.8 million as a result of increase in headcount; and (ii) increase in other tax payable. Our other payables and accrued charges further increased to approximately RMB26.0 million as at 31 December 2018, which was mainly due to (i) increase in other tax payable; and (ii) increase in transportation cost payable as a result of increase in sales volume to overseas customers. Our other payables and accrued charges further increased to approximately RMB31.7 million as at 31 May 2019, mainly due to (i) increase in accrued charges of approximately RMB5.3 million mainly for the preparation of listing; and (ii) increase in accrued listing and issue costs.

As at 31 December 2016, 2017 and 2018 and 31 May 2019, trade receivables of approximately RMB25.0 million, RMB22.9 million, RMB30.4 million and RMB18.1 million, respectively, was guaranteed by our staff. The number of staff who had placed guarantee with our Group was 14, 15, 28 and 27 as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively and they are the sales managers, deputy sales managers and sales persons of our Group. Save as the employment contracts entered into between our Group and the relevant staff, we have not entered into separate written agreements with the staff in relation to the guarantee receipt arrangements. Instead, our Group has an internal policy in relation to the guarantee receipt arrangement which our staff can participate in voluntarily. For the customers which are subject to the guarantee receipt arrangements, our Group had assessed their credit risk based on various factors, and each of the customers will be assigned a risk coefficient. For the credit sales placed through the relevant staff, the relevant staff will bear a portion of the credit risk base on the risk coefficient (the "**Credit Risk Amount**"). Set forth below is the equation for the determination of the Credit Risk Amount:

$$\text{Credit sales}^{(\textit{Note 1})} \times \text{Risk coefficient}^{(\textit{Note 2})} = \text{Credit Risk Amount}^{(\textit{Note 3})}$$

Notes:

1. Credit sales represent the sales amount placed by our customers.

2. Risk coefficient ranged from 5% to 20%. This is determined by our Group with reference to various factors including but not limited to (i) background of customers; (ii) credit term required by the customers; and (iii) credit history (for existing customers). The higher the credibility of the customers, the lower the risk coefficient.

3. Credit Risk Amount represents the amount to be borne by the relevant staff.

According to the internal policy, our staff can voluntarily place a sum as guarantee payment to our Group and such sum will be multiplied by a coverage ratio as determined by our Group (the "**Guarantee Coverage**"). The Credit Risk Amount must not exceed the Guarantee Coverage.

Set forth in the tables below are details of the guarantee receipt arrangements of our Group during the Track Record Period:

For the year ended 31 December 2016

Staff	**Position** *(Note 2)*	**Annual remuneration** *(Note 3)* *(RMB'000)* *(approximately)*	**Commission paid to the staff for the period** *(RMB'000)* *(approximately)*	**Opening balance of guarantee placed** *(RMB'000)* *(approximately)* (a)	**Guarantee placed/ (withdrawn)** *(Note 4)* **by the staff for the year** *(RMB'000)* *(approximately)* (b)	**Closing balance of the guarantee placed** *(RMB'000)* *(approximately)* (a) + (b)
Staff 1	Sales person	31	64	357	16	373
Staff 2	Sales manager	31	160	408	45	453
Staff 3	Sales manager	31	124	340	56	396
Staff 4	Sales manager	31	213	471	(310)	161
Staff 5	Sales person	31	187	495	50	545
Staff 6	Sales person	31	32	316	8	324
Staff 7	Deputy sales manager	31	143	312	(236)	76
Staff 8	Sales manager	31	87	140	39	179
Staff 9	Sales person	31	45	213	33	246
Staff 10	Deputy sales manager	31	114	125	54	179
Staff 11	Sales manager *(Note 1)*	—	—	312	—	312
Staff 12	Deputy sales manager	31	77	868	20	888
Staff 13	Sales person	31	1.5	—	3	3
Staff 14	Sales person	31	19	—	16	16

Notes:

1. The staff had resigned during the year ended 31 December 2016 and the guarantee placed was held with our Group since the receivables of the relevant customers had not been settled for the year. The guarantee was subsequently returned to the staff during the year ended 31 December 2017 when the outstanding payment was settled by the customers.

2. The position is the latest position of the staff as at the Latest Practicable Date.

3. For the years ended 31 December 2016 and 2017, we applied the same annual remuneration package to all of our sales personnel in regardless of their position. Since, 2018, to provide better incentive to our sales personnel in particular our sales manager/deputy sales manager, we have adjusted the remuneration package.

4. Guarantee placed or withdrawn represents net figure which is gross guarantee placed minus withdrawal for the year.

For the year ended 31 December 2017

Staff	Position (Note 1)	Annual remuneration (Note 2) (RMB'000) (approximately)	Commission paid to the staff for the period (RMB'000) (approximately)	Opening balance of guarantee placed (RMB'000) (approximately) (a)	Guarantee placed/ (withdrawn) (Note 3) by the staff for the year (RMB'000) (approximately) (b)	Closing balance of the guarantee placed (RMB'000) (approximately) (a) + (b)
Staff 2	Sales manager	31	132	453	35	488
Staff 6	Sales person	31	74	324	35	359
Staff 3	Sales manager	31	230	396	85	481
Staff 4	Sales manager	31	225	161	287	448
Staff 5	Sales person	31	226	545	68	613
Staff 7	Deputy sales manager	31	141	76	218	294
Staff 9	Sales person	31	52	246	20	266
Staff 10	Deputy sales manager	31	140	179	64	243
Staff 13	Sales person	31	49	3	31	34
Staff 15	Sales person	31	28	—	26	26
Staff 14	Sales person	31	48	16	27	43
Staff 1	Sales person	31	6	373	5	378
Staff 12	Deputy sales manager	31	130	888	41	929
Staff 8	Sales manager	31	88	179	36	215
Staff 16	Sales person	31	74	—	25	25

Notes:

1. The position is the latest position of the staff as at the Latest Practicable Date.

2. For the years ended 31 December 2016 and 2017, we applied the same annual remuneration package to all of our sales personnel in regardless of their position. Since, 2018, to provide better incentive to our sales personnel in particular our sales manager/deputy sales manager, we have adjusted the remuneration package.

3. Guarantee placed or withdrawn represents net figure which is gross guarantee placed minus withdrawal for the year.

For the year ended 31 December 2018

Staff	Position (Note 2)	Annual remuneration (RMB'000) (Note 4) (approximately)	Commission paid to the staff for the period (RMB'000) (approximately)	Opening balance of guarantee placed (RMB'000) (approximately) (a)	Guarantee placed/ (withdrawn) (Note 3) by the staff for the year (RMB'000) (approximately) (b)	Closing balance of the guarantee placed (RMB'000) (approximately) (a)+(b)
Staff 2	Sales manager	48	205	488	(166)	322
Staff 6	Sales person	31	81	359	15	374
Staff 17	Sales person	31	36	—	160	160
Staff 18	Sales person	31	52	—	100	100
Staff 3	Sales manager	48	297	481	(235)	246
Staff 19	Sales person	31	210	—	100	100
Staff 20	Sales person	31	19	—	200	200
Staff 21	Sales person	31	28	—	100	100
Staff 4	Sales manager	48	127	448	(201)	247
Staff 22	Sales person	31	18	—	—	—
Staff 23	Sales person	31	73	—	100	100
Staff 24	Sales person	31	32	—	200	200
Staff 5	Sales person	31	195	613	(613)	— (Note 1)
Staff 25	Sales person	31	28	—	100	100
Staff 26	Sales person	31	18	—	50	50
Staff 7	Deputy sales manager	48	93	294	41	335
Staff 9	Sales person	31	41	266	12	278
Staff 14	Sales person	31	77	43	21	64
Staff 10	Deputy sales manager	48	170	243	41	284
Staff 15	Sales person	31	51	26	18	44
Staff 27	Sales person	31	118	—	46	46
Staff 13	Sales person	31	47	34	14	48
Staff 12	Deputy sales manager	48	49	929	13	942
Staff 8	Sales manager	31	137	215	36	251
Staff 28	Deputy sales manager	48	58	—	50	50
Staff 29	Sales person	21	23	—	100	100
Staff 30	Sales person	31	35	—	100	100
Staff 31	Deputy sales manager	48	45	—	350	350
Staff 32	Sales person	13	2	—	100	100
Staff 33	Sales manager	20	20	—	100	100

Notes:

1. The guarantee placed by the staff was forfeited by our Group due to non-settlement of payment by our customer.

2. The position is the latest position of the staff as at the Latest Practicable Date.

3. Guarantee placed or withdrawn represents net figure which is gross guarantee placed minus withdrawal for the year.

4. For the years ended 31 December 2016 and 2017, we applied the same annual remuneration package to all of our sales personnel in regardless of their position. Since, 2018, to provide better incentive to our sales personnel in particular our sales manager/deputy sales manager, we have adjusted the remuneration package.

For the five months ended 31 May 2019

Staff	Position (Note 2)	Remuneration for the period *(RMB'000)* *(approximately)*	Commission paid to the staff for the period *(RMB'000)* *(approximately)*	Opening balance of guarantee placed *(RMB'000)* *(approximately)* (a)	Guarantee placed/ (withdrawn) (Note 3) by the staff for the year *(RMB'000)* *(approximately)* (b)	Closing balance of the guarantee placed *(RMB'000)* *(approximately)* (a)+(b)
Staff 27	Sales person	13	29	46	23	69
Staff 2	Sales manager	20	90	322	41	363
Staff 6	Sales person	13	73	374	24	398
Staff 7	Deputy sales manager	20	42	335	18	353
Staff 17	Sales person	13	50	160	80	240
Staff 18	Sales person	13	21	100	50	150
Staff 3	Sales manager	20	67	246	43	289
Staff 19	Sales person	13	7	100	—	100
Staff 20	Sales person	13	16	200	—	200
Staff 21	Sales person	13	19	100	—	100
Staff 4	Sales manager	20	68	247	33	280
Staff 22	Sales person	13	20	—	—	—
Staff 23	Sales person	13	40	100	50	150
Staff 24	Sales person	13	29	200	370	570
Staff 25	Sales person	13	10	100	—	100
Staff 10	Deputy sales manager	20	50	284	38	322
Staff 26	Sales person	13	12	50	—	50
Staff 13	Sales person	13	32	48	20	68
Staff 34	Sales person	13	12	—	51	51
Staff 28	Deputy sales manager	20	37	50	30	80
Staff 8	Sales manager	13	68	251	23	274
Staff 30	Sales person	3	1	100	—	100
Staff 31	Deputy sales manager	20	47	350	(250)	100
Staff 9	Sales person	13	7	278	1	279
Staff 14	Sales person	13	25	64	29	93
Staff 5	Sales person	13	59	—	35	35
Staff 33	Sales manager	20	31	100	—	100
Staff 12	Deputy sales manager	20	31	942	8	950
Staff 15	Sales person (Note 1)	5	16	44	(44)	—

Notes:

1. The staff had resigned during the five months ended 31 May 2019 and all guaranteed placed with our Group was returned to the staff.

2. The position is the latest position of the staff as at the Latest Practicable Date.

3. Guarantee placed or withdrawn represents net figure which is gross guarantee placed minus withdrawal for the five months ended 31 May 2019.

To the best of the knowledge of our Directors after making all reasonable enquiries, the source of the funds contributed to the guarantee were from the personal savings of the respective staff and save and except the forfeiture of guarantee payment on our occasion during the Track Record Period, the underlying trade receivables were settled by the relevant customers and not by any other third parties or our staff. During the Track Record Period, each of our customers were handled by our sales staff and commission payments are made to our sales staff depending on the amount of sales placed by our customers. Our customers are more motivated to place orders if they are granted credit terms. To mitigate the risks of default in payment by our major customers who are granted a credit term and to better manage our trade receivables, our Group had requested for a guarantee from the sales staff who are responsible for the relevant customers. For staff who are willing to provide a guarantee for the customers, they are permitted to reach out to new customers who request credit terms. Through this arrangement, our staff are able to seek opportunities from a wider range of customers. The amount payable for the guarantee is determined with reference to the annual transaction amount between the customer and our Group. Set forth on the tables below are details of the customers which are subject to the guarantee receipt arrangements during the Track Record Period:

31 December 2016

Identity of customer	Business profile of customer	Trade receivables as at year end *(RMB'000)*	Subsequent settlement as at 30 September 2019 *(RMB'000)*	Sales person in charge
Guaranteed Customer A	Engaged in international wholesale and retail trade of electronic information products	6,344	6,344	Staff 1, Staff 6
Guaranteed Customer B	Thermal power generation and supply, refrigeration production and supply, thermal technology consultation service	2,598	2,598	Staff 2, Staff 8
Guaranteed Customer C	Export electronic products, import and export business of complete sets of equipment, research, development and sales of self-developed high-strength alloy products	2,074	2,074	Staff 1, Staff 6
Guaranteed Customer D	Mainly produces polyurethane insulation pipe, steel sleeve steel steam insulation pipe, PE pipe, various anti-corrosion pipes and pipe fittings. The products are widely used in central heating, centralised cooling, petrochemical and other fields	2,038	2,038	Staff 1, Staff 6
Guaranteed Customer E	Mainly engaged in carbon asset development and management business, entrusted to develop carbon assets projects such as CDM, agent energy-saving emission reduction index transactions, planning and implementation of carbon financial service programs, and energy conservation and emission reduction policy information consulting services	1,981	1,981	Staff 1, Staff 6
Guaranteed Customer F	Municipal engineering, insulation engineering construction, sales of building materials, plumbing equipment.	1,529	1,529	Staff 2, Staff 8
Guaranteed Customer G	Electricity, heat, gas and water production and supply	1,438	1,438	Staff 3, Staff 9
Guaranteed Customer H	City gas operation; sales and after-sales service of gas appliances, heating appliances, kitchen and bathroom appliances; housing leasing; gas after-sales charging services; contract energy management.	1,129	1,129	Staff 4, Staff 7
Guaranteed Customer I	Urban heating construction, maintenance and operation; heating engineering design and construction; heating facility equipment installation and maintenance; heating equipment parts processing and sales; power sales.	1,065	1,065	Staff 1, Staff 6
Guaranteed Customer J	Gas (compressed gas, liquefied gas) transmission and distribution, sales; gas engineering design, installation; gas gas equipment and ancillary facilities sales, installation; gas heating project construction and operation; road cargo transportation.	955	955	Staff 4, Staff 7
Other Guaranteed Customers		3,799	3,799	
Total		24,950	24,950	

31 December 2017

Identity of customer	Business profile of customer	Trade receivables as at year end (RMB'000)	Subsequent settlement as at 30 September 2019 (RMB'000)	Sales person in charge
Guaranteed Customer K *(Note)*	Heating; thermal procurement and sales, municipal engineering construction.	4,397	—	Staff 5, Staff 10
Guaranteed Customer F	Municipal engineering, insulation engineering construction, sales of building materials, plumbing equipment.	3,266	3,266	Staff 2
Guaranteed Customer A	Thermal power generation and supply, refrigeration production and supply, thermal technology consultation service	538	538	Staff 2
Guaranteed Customer L	Product development and technical consulting services and transfer, distribution and on-site installation of boiler auxiliary equipment, heating equipment, water treatment equipment, thermal insulation materials, electrical machinery and equipment, industrial automation instrumentation; distribution of stationery products.	1,417	1,417	Staff 6
Guaranteed Customer M	Production and sales of alcohol, beverages, starch and starch products; heating services; tourism development; crop planting; processing and sales of agricultural products, fruits and vegetables.	1,411	1,411	Staff 5, Staff 10
Guaranteed Customer N	The management of various state-owned assets formed during the construction and development of Xuzhou Water Conservancy; investment, development and construction of water conservancy infrastructure and supporting projects; construction of wading construction projects; investment in water and soil resources and water tourism projects, development, utilisation; real estate investment, development, sales; sewage treatment and recycling; solar photovoltaic power generation project construction and operation; tap water supply	995	995	Staff 5, Staff 10
Guaranteed Customer O	Tap water production and supply; water supply equipment production and sales; water supply engineering installation and maintenance services; water meter inspection and maintenance services; plumbing equipment, alcohol products, other products, daily necessities sales (limited to branch companies); pure water production Sales (limited to branch companies with license management).	891	891	Staff 4, Staff 2

Note: No settlement has been received as at 30 September 2019 because the customer went into liquidation. In view of the liquidation of the customer, our Group had written off trade receivables of approximately RMB3.2 million for the year ended 31 December 2018. The remaining amount of approximately RMB1.3 million was subsequently recovered from its bankruptcy administrator.

Identity of customer	Business profile of customer	Trade receivables as at year end (RMB'000)	Subsequent settlement as at 30 September 2019 (RMB'000)	Sales person in charge
Guaranteed Customer P	Town gas operation; operation, sales, installation and maintenance of gas equipment; sales, installation and maintenance of household kitchen appliances; development and application of new gas technology; sales of gas, compressed natural gas and liquefied natural gas for vehicles (only branches with valid qualification certificate) Operation); electric vehicle charging and replacing services; wholesale, retail and installation services for charging piles and charging cabinets; technical research and development and technical services for electric vehicle charging facilities and equipment; electric vehicle battery sales and installation services	784	784	Staff 4, Staff 7, Staff 13
Guaranteed Customer Q	Sales of gas (including natural gas, liquefied petroleum gas, gas); investment, construction, management, operation and consulting services for natural gas utilisation, automobile filling stations, etc.; production, sales and maintenance of gas equipment, appliances and accessories; gas facilities repair service.	779	779	Staff 4, Staff 7, Staff 13
Guaranteed Customer S	Insulation pipe production; flow meter sales; anti-corrosion insulation project construction; production and sales of anti-corrosion insulation materials; operating other general business projects that can be operated without administrative approval.	649	649	Staff 2
Other Guaranteed Customers		7,807	7,743	
Total		22,934	18,473	

31 December 2018

Identity of customer	Business profile of customer	Trade receivables as at year end (RMB'000)	Subsequent settlement as at 30 September 2019 (RMB'000)	Sales person in charge
Guarantee Customer F	Municipal engineering, insulation engineering construction, sales of building materials, plumbing equipment.	2,652	2,652	Staff 2, Staff 14
Guarantee Customer T	Electricity, heat, gas and water production and supply	2,180	2,180	Staff 3, Staff 9, Staff 27
Guaranteed Customer I	Urban heating construction, maintenance and operation; heating engineering design and construction; heating facility equipment installation and maintenance; heating equipment parts processing and sales; power sales.	1,973	1,973	Staff 6, Staff 15
Guarantee Customer U	Technology development, technical consulting, technical services in the field of pipeline technology, pipelines, pipes, building materials, metal materials, plastic products, construction and decoration materials (except dangerous goods), mechanical and electrical equipment, daily necessities, wholesale and retail, e-commerce	1,927	1,927	Staff 23
Guarantee Customer V	Ordinary freight; special transportation of goods (tank type); building construction; building decoration and decoration; installation of mechanical and electrical equipment; installation of pressure pipe; casting of steel ball; sales: hardware tools, building materials, daily necessities, stainless steel products; Catering services, accommodation.	1,384	1,384	Staff 5, Staff 10
Guarantee Customer X	Sales of natural gas; gas engineering design, supervision, construction; gas appliance sales, installation, maintenance	1,290	1,290	Staff 4, Staff 7, Staff 13
Guaranteed Customer K *(Note)*	Heating; thermal procurement and sales, municipal engineering construction.	1,256	—	Staff 5, Staff 10
Guaranteed Customer N	The management of various state-owned assets formed during the construction and development of Xuzhou Water Conservancy; investment, development and construction of water conservancy infrastructure and supporting projects; construction of wading construction projects; investment in water and soil resources and water tourism projects, development, utilisation; real estate investment, development, sales; sewage treatment and recycling; solar photovoltaic power generation project construction and operation; tap water supply	1,198	1,198	Staff 5, Staff 10
Guaranteed Customer Y	Market management; sales: steel, pipe, building materials, machinery and equipment, plumbing equipment, fire equipment	1,117	1,117	Staff 18
Guaranteed Customer Z	Wholesale and retail of fire-fighting equipment and hardware accessories.	868	868	Staff 24
Other Guaranteed Customers		14,604	14,604	
Total		30,449	29,193	

Note: No settlement has been received as at 30 September 2019 because the customer went into liquidation. In view of the liquidation of the customer, our Group had written off trade receivables of approximately RMB3.2 million for the year ended 31 December 2018. The remaining amount of approximately RMB1.3 million was subsequently recovered from its bankruptcy administrator.

31 May 2019

Identity of customer	Business profile of customer	Trade receivables as at period end (RMB'000)	Subsequent settlement as at 30 September 2019 (RMB'000)	Sales person in charge
Guarantee Customer U	Technology development, technical consulting, technical services in the field of pipeline technology, pipelines, pipes, building materials, metal materials, plastic products, construction and decoration materials (except dangerous goods), mechanical and electrical equipment, daily necessities, wholesale and retail, e-commerce	2,026	2,026	Staff 23
Guarantee Customer AA	Contracting business within the scope of the head office.	1,652	1,652	Staff 2
Guarantee Customer AB	Import and export of mechanical and electrical equipment; sales and installation of mechanical and electrical equipment, sales of municipal engineering building materials; research and development and sales of water treatment chemicals; sales and leasing of municipal engineering materials and machinery; maintenance of municipal engineering construction, water supply and drainage facilities, water supply and drainage engineering Design, supervision; engineering construction consulting, management; property asset management, green maintenance; operation management of water plants and sewage plans: construction labour subcontracting, human resources intermediary services	1,647	1,647	Staff 4, Staff 2
Guarantee Customer AC	Electricity, heat, gas and water production and supply	1,291	358	Staff 7
Guarantee Customer T	Sales: Town Gas (operating with license). Design, supervision and installation of gas engineering; sales and maintenance of gas equipment and appliances; maintenance of gas facilities; investment and operation of pipelines and related facilities for pipeline gas; operation of other gas-related materials and services (related to licensing Except for the project).	945	945	Staff 3
Guarantee Customer AD	Urban heating construction, maintenance and operation; heating engineering design and construction; heating facility equipment installation and maintenance; heating equipment parts processing and sales; power sales.	916	916	Staff 7
Guaranteed Customer I	Ordinary freight; special transportation of goods (tank type); building construction; building decoration and decoration; installation of mechanical and electrical equipment; installation of pressure pipe; casting of steel ball; sales: hardware tools, building materials, daily necessities, stainless steel products; Catering services, accommodation.	839	839	Staff 6

Identity of customer	Business profile of customer	Trade receivables as at period end (RMB'000)	Subsequent settlement as at 30 September 2019 (RMB'000)	Sales person in charge
Guarantee Customer V	Production, distribution and sales of urban pipeline gas (including customer service). Construction and operation of urban gas engineering projects (including pipe network) and related facilities; design and construction of urban gas projects (including pipe network); related business services of gas users. Wholesale, retail and commission agents for pipe fittings, kitchen utensils (except auctions); insurance concurrent agency services (operated by license).	587	587	Staff 10
Guarantee Customer AE	Wholesale sales: building materials, steel, hardware, electronic products, instruments, machinery and accessories, computers, hardware and software and supplies, office supplies, plastic products, jewellery, jade, crafts, clothing shoes and hats, non-specialised agricultural and sideline products.	580	580	Staff 7
Guarantee Customer AF		579	579	Staff 20
Other Guaranteed Customers		7,064	4,363	
Total		18,126	14,492	

For the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, nil, nil, approximately RMB0.6 million and nil guarantee provided by one of our staff was forfeited by our Group under the guarantee arrangement due to the non-settlement of payment by our customer.

In addition, we have obtained written confirmations from Human Resources and Social Security Bureau of Pingyin County (平陰縣人力資源和社會保障局) confirming that none of our subsidiaries had been penalised for violation of PRC labour laws and regulations and the relevant guarantee receipt arrangement of our Group is in compliance with relevant applicable labour laws and regulations in the PRC. Based on the confirmation by the Human Resources and Social Security Bureau of Pingyin County and after reviewing the relevant documents, our PRC Legal Adviser is of the view that, the arrangement of guarantee receipts from staff is in compliance with all relevant laws and regulations of the PRC. In addition, according to the Frost & Sullivan Report, such arrangement is also adopted by other market players in the industry.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions represent warranty provided for our products sold.

Our provision was approximately nil, RMB1.2 million, RMB1.3 million and RMB1.6 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. Fluctuations in provisions are related to the probability of claims estimated by our Directors and the actual claims incurred in the respective period.

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on acquisitions of property, plant and equipment in our operations. During the Track Record Period, our Group incurred capital expenditures of approximately RMB19.2 million, RMB8.9 million, RMB27.8 million and RMB21.8 million, respectively, majority of which came from acquisition of buildings, construction in progress and machineries which primarily used in our operations.

Between 31 May 2019 and the Latest Practicable Date, our Group had not incurred any significant amount of capital expenditures.

The following table sets forth our Group's capital expenditure as at the dates indicated:

	For the years ended 31 December			For the five months ended 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	19,164	8,924	27,847	21,846

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and bank borrowings.

PROPERTY INTERESTS

Our Directors confirm that, as at 31 May 2019, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at 31 May 2019, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

CAPITAL COMMITMENTS

We had the following capital commitments mainly related to acquisition of property, plant and equipment, which were not provided for in our consolidated financial statements:

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for:				
Acquisition of property, plant and equipment	226	598	3,823	7,537

INDEBTEDNESS

As at 30 September 2019, being the latest practicable date for this indebtedness statement, save as disclosed below, our Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, lease liabilities or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding. As at the Latest Practicable Date, there were no material covenants related to our outstanding debts that would materially limit our ability to undertake additional debt or equity financing necessary to carry out our business plan. Up to the Latest Practicable Date, we had not been in default of these covenants that could cause any material adverse impact on our business operations.

As at 30 September 2019, being the latest practicable date for this indebtedness statement, our Group had (i) total bank borrowings of approximately RMB259.3 million, of which RMB189.2 million are unguaranteed and unsecured, and approximately RMB70.1 million are unguaranteed but secured by certain of the Group's property, plant and equipment and right-of-use assets; (ii) total lease liabilities of approximately RMB1.9 million which were unguaranteed but secured by the Group's rental deposits; and (iii) amounts due to shareholders/former shareholders of an aggregate amount of approximately RMB162.7 million which were unsecured and unguaranteed.

The table below sets out the indebtedness of our Group as at the respective dates indicated:

	As at 31 December			As at 31 May	As at 30 September
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)
Non-current liability					
Lease liabilities	—	—	1,622	1,290	1,079
	—	—	1,622	1,290	1,079
Current liabilities					
Lease liabilities	—	—	730	762	788
Secured bank borrowings	—	—	30,025	—	70,080
Unsecured bank borrowings	—	—	—	100,124	189,205
Unsecured other borrowings	300,078	300,674	270,222	170,211	—
Amounts due to shareholders/former shareholders	—	—	—	162,670	162,670
	300,078	300,674	300,977	433,767	422,743
Total	300,078	300,674	302,599	435,057	423,822

Borrowings

The following table sets out our total debts as at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019:

	As at 31 December			As at 31 May	As at 30 September
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current, unguaranteed					
Secured bank borrowings	—	—	30,025	—	70,080
Unsecured bank borrowings	—	—	—	100,124	189,205
Unsecured other borrowings	300,078	300,674	270,222	170,211	—
Total	300,078	300,674	300,247	270,335	259,285

The following table sets out the effective interest rates for the year/periods indicated:

	For the years ended 31 December			For the five months ended 31 May	For the nine months ended 30 September
	2016	**2017**	**2018**	**2019**	**2019** (unaudited)
Borrowings	4.7%	4.7%–4.8%	4.4%–4.8%	4.4%–4.7%	4.4%–4.6%

As at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019, our secured bank borrowings were unguaranteed but secured by certain property, plant and equipment with net book value of approximately nil, nil, RMB37.5 million, nil and RMB48.9 million, respectively, and right-of-use assets with net book value of approximately nil, nil, RMB43.4 million, nil and RMB44.0 million, respectively.

As at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019, our unsecured bank borrowings, unguaranteed, amounted to approximately nil, nil, nil, RMB100.1 million and RMB189.2 million, respectively.

As at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019, our unsecured other borrowings, unguaranteed, amounted to approximately RMB300.1 million, RMB300.7 million, RMB270.2 million, RMB170.2 million and nil, respectively. The other borrowings represented the borrowings from Meide Group through two commercial banks. The remaining balance of the other borrowings was fully repaid by obtaining new borrowings as at 30 September 2019.

As at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019, we had pledge of assets comprises of pledged bank deposits of approximately nil, RMB12.0 million, RMB3.3 million, RMB5.2 million and RMB5.0 million, property, plant and equipment of approximately nil, nil, RMB37.5 million, RMB49.9 million and RMB48.9 million, right-of-use assets of approximately nil, nil, RMB43.4 million, RMB44.4 million and RMB44.0 million, and trade receivables backed by bills of approximately nil, nil, RMB2.0 million, nil and nil, respectively.

During the Track Record Period, we had not been in default of any covenants that could cause any material adverse impact on our business operations.

As at 30 September 2019, being the latest practicable date for the purpose of indebtedness statement, we had aggregate banking facilities of approximately RMB359.0 million, of which approximately RMB100.0 million was unutilised.

Lease liabilities

Our Group records lease liabilities with respect to all lease agreements in which we are the lessee at the lease commencement date, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets.

The follow table sets forth our lease liabilities as at the dates indicated:

	As at 31 December			As at 31 May	As at 30 September
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Current	—	—	730	762	788
Non-current	—	—	1,622	1,290	1,079
	—	—	2,352	2,052	1,867

	As at 31 December			As at 31 May	As at 30 September
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)
Minimum lease payment due:					
— within one year	—	—	824	841	854
— more than one year but not exceeding two years	—	—	865	882	896
— more than two years but not exceeding five years	—	—	830	453	210
	—	—	2,519	2,176	1,960
Less: future finance charge	—	—	(167)	(124)	(93)
Present value of lease liabilities	—	—	2,352	2,052	1,867

Our Group leased a property to operate our factory and the lease liabilities were measured at the present value of the lease payments that are not yet paid. As at 31 December 2016, 2017 and 2018, 31 May 2019 and 30 September 2019, we recorded lease liabilities of approximately nil, nil, RMB2.4 million, RMB2.1 million and RMB1.9 million, respectively, as we leased a production plant in Vietnam in end of 2018, of which approximately nil, nil, RMB0.4 million, RMB0.4 million, RMB0.4 million were secured by rental deposit, but unguaranteed.

Amounts due to shareholders/former shareholders

Amounts due to shareholders/former shareholders represent cash consideration of approximately RMB162.7 million for the transfer of the entire equity interest of Jinan Mech to Tube Industry Investments under the Reorganisation. As at 31 May 2019, amounts due to shareholders/former shareholders amounted to approximately RMB162.7 million. The amounts are non-trade nature, unsecured, interest-free and repayable on demand. The amounts due to shareholders/former shareholders was fully settled as at the Latest Practicable Date. The amount due was settled by borrowing a loan amounted to RMB162.7 million from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI (collectively, the "**Lenders**") by Tube Industry Investments (the "**Borrower**"). The loan was unsecured and interest free, and was fully settled by the Borrower allotting and issuing 10,000 ordinary shares to Guan Dao Investments on 16 October 2019. For details, please refer to "Relationship with our Controlling Shareholders — Independence from our Controlling Shareholders — Financial Independence".

Contingent liabilities

As at 30 September 2019, being the latest practicable date for the purpose of the indebtedness statement, we did not have any material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set forth in Note 34 to the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

ACCUMULATED LOSSES

As at 1 January 2016, our Group had recorded an accumulated loss in the sum of approximately RMB0.2 million. Our Directors are of the view that the loss recorded was mainly attributable to the following factors:

(i) The standard prefabricated pipe nipples and steel pipe industry is capital intensive

At the establishment of Jinan Mech in May 2013, our Group had smaller business scale and incurred substantial amount of set up cost on our machinery and equipment and labour force. We also purchased a parcel of land in Meiguizhen, Pingyin County, Jinan, and set up our production plant. For the year ended 31 December 2015, we had purchased two production lines for our ERW steel pipe products. We also had 271 staff at our production plant as at 31 December 2015.

(ii) Early stage of production

We subsequently conducted trial run of our production lines in order to optimise our production process and at the same time providing trainings to our staff. These exercises had considerable effect to our ability to fully utilise our production facilities and ability to undertake large customers' orders of early stage of operation.

(iii) Limited clientele

Owing to our limited business scale we had a limited clientele. Although Jinan Mech was established in May 2013, it only began to offer ERW steel pipe products in late 2014. For the year ended 31 December 2015, our Group only had less than 250 customers which had placed orders for our products from us and we only recorded approximately 40,000 tons of sales for our ERW steel pipe products. Due to the lack of orders, the utilisation rate of our product machinery and equipment remained at a relatively low level.

(iv) Declaration of dividend

Prior to 1 January 2016, we declared and paid dividends which reduced the retained profits of our Group.

The accumulated losses have since improved for the year ended 31 December 2016. Our Group recorded accumulated profits position of approximately RMB1.3 million, RMB37.4 million, RMB82.8 million and RMB100.0 million as at each of 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. The improved financial position is attributable to the increased gross profit for our standard prefabricated pipe nipples products, ERW steel pipes products and customised steel pipes products. The overall gross profit margin of our Group had also increased from 17.7% to 23.0% for the year ended 31 December 2016 to the year ended 31 December 2018. The gross profit margin for the five months ended 31 May 2019 had also increased as compared to the same period in 2018, from 21.7% to 22.8%.

Key reasons that our Group managed to improve our financial during the Track Record Period

We managed to improve our financial performance during the Track Record Period mainly due to (i) expansion of product portfolio; (ii) continuous increase in number of customers which had improved our production volume and utilisation rate of machinery and equipment; and (iii) continuous effort in research and development.

(i) Expansion of product portfolio

The gross profit margin improved due to the change of product portfolio. Our Group commenced the production of standard prefabricated pipe nipple products in November 2016 after the acquisition of the business from Meide. For details of the acquisition, see "History, Reorganisation and corporate structure — Our corporate development — Acquisition of the standard prefabricated pipe nipples business from Meide".

By tapping into the standard prefabricated pipe nipple products industry, we were able to offer to our customers a diversified product portfolio. For the three years ended 31 December 2018, we generated revenue from our production of standard prefabricated pipe nipple products in the amount of approximately RMB52.9 million, RMB293.6 million, and RMB379.3

million, respectively. In addition, our standard prefabricated pipe nipple products had a higher gross profit margin as compared to our other products. As such, our Group had recorded an improved financial performance throughout the Track Record Period.

(ii) Increase in number of customers which had improved our production volume and utilisation rate

Over the years, our Directors were all along aware that the steel pipe manufacturing industry in the PRC is fragmented, and were of the view that, in order to maintain our market position, we must continuously expand our clientele base. Against such industry backdrop, our Group decided to actively explore market opportunities so as to increase our market share within a short timeframe in this fragmented industry. In this connection, our Group continuously expanded our sales and marketing team as well as our promotion and marketing expenses during the Track Record Period. For the three years ended 31 December 2018, our number of sales and marketing staff were 22, 55, and 73, respectively.

During the Track Record Period, we have recorded increased number of customers for our standard prefabricated pipe nipple products, ERW steel pipe products and SSAW steel pipe products. During the Track Record Period, the number of customers increased from approximately 380 customers for the year ended 31 December 2016 to over 450 customers for the year ended 31 December 2018. The increase in clientele base is mainly attributable to the effort of our sales and marketing team. Our team had continuously explore new business opportunities both domestically and worldwide, through industry exhibitions and other marketing activities. For details of our marketing strategies, see "Business — Sales and marketing — Marketing". As a reflection of our sales and marketing efforts, our promotion and exhibition fee (mainly represent fee of printing brochures, designing company website and participating in exhibitions) increased from approximately RMB375,000 for the year ended 31 December 2016 to approximately RMB1.9 million for the year ended 31 December 2018.

As a result, the increase in number of customers had driven our sales volume of our products which increased the utilisation rate of our production lines at the production facilities in the PRC during the Track Record Period. Our Directors are of the view that we were able to optimise our production process during the Track Record Period.

(iii) Significant increase in overseas sales

Our Group has also endeavoured to diversify our customer base by extending our footprint across overseas. As a result of our active pursuit of business opportunities with new customers, our overseas sales increased correspondingly. We have recorded increased overseas sales during the Track Record Period. We recorded revenue of RMB87.4 million, RMB361.4 million and RMB559.3 million for each of the three years ended 31 December 2018, representing a growth of 539.9% throughout the period. The increase was due to the expansion of client base overseas and growth in demand of existing overseas customers.

(iv) Continuous effort in research and development

In addition, to attract more new customers, our Group has been endeavouring to enhance the satisfaction of our customers. As such, we placed great emphasis on research and development to keep in pace with technology innovations and advances which allowed us to continuously satisfy our customers' needs. During the Track Record Period, our Group had engaged in an aggregate of 71 research and development projects. As a reflection of our research and development effort, Jinan Mech and Jinan Ma Steel were accredited the High and New Technology Enterprise in 2017 and 2018, respectively. Our effort in research and development projects had expanded our product portfolio and product quality. This has allowed us to attract new customers and at the same time retain our current customers to order high quality and wide range of products from us. For details of our research and development capabilities, see "Business — Research and development".

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:

	For the years ended 31 December			For the five months ended 31 May
	2016	2017	2018	2019
Profitability ratios				
Gross profit margin (%) [(1)]	17.7	22.9	23.0	22.8
Return on equity (%) [(2)]	11.9	27.7	26.8	N/A
Return on total assets (%) [(3)]	4.2	10.7	12.6	N/A
	As at 31 December			**As at 31 May**
	2016	**2017**	**2018**	**2019**
Liquidity ratios				
Current ratio (times) [(4)]	1.0	1.2	1.4	1.0
Quick ratio (times) [(5)]	0.7	0.8	1.0	0.6
Capital adequacy ratios				
Gearing ratio (%) [(6)]	148.2	107.4	79.9	109.7
Interest coverage (times) [(7)]	26.1	7.1	9.3	8.4

Notes:

(1) Gross profit margin is calculated based on gross profit for the year/period divided by revenue for the respective year/period and multiplied by 100%. See the section headed "Review of Historical Results of Operations" in this section for more details on our gross profit margins.

(2) Return on equity is calculated based on the profit for the year for the respective year divided by the total equity as at the respective dates and multiplied by 100%.

(3) Return on total assets is calculated based on the net profit for the respective year divided by the total assets as at respective dates and multiplied by 100%.

(4) Current ratio is calculated based on the total current assets as at the respective dates divided by the total current liabilities as at the respective dates.

(5) Quick ratio is calculated based on the total current assets less inventories as at the respective dates divided by the total current liabilities as at the respective dates.

(6) Gearing ratio is calculated based on the total interest bearing borrowings (representing secured bank borrowings, unsecured bank borrowings, unsecured other borrowings) and lease liabilities as at the respective dates divided by total equity as at the respective dates and multiplied by 100%.

(7) Interest coverage is calculated based on the profit before interest and tax for the respective years/period divided by the interest for the respective years/period.

Return on equity

Our return on equity increased from approximately 11.9% for the year ended 31 December 2016 to approximately 27.7% for the year ended 31 December 2017, mainly due to increase in net profit. Our return on equity remained relatively stable at approximately 26.8% for the year ended 31 December 2018.

Return on total assets

Our return on total assets was approximately 4.2%, 10.7% and 12.6% for the years ended 31 December 2016, 2017 and 2018, respectively. The continuous increase was primarily attributable to the increase in net profits for respective years.

Current ratio

Our current ratio was approximately 1.0 times, 1.2 times, 1.4 times and 1.0 times as at 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019, respectively. The increase in our current ratio as at 31 December 2017 and 2018 was mainly attributable to increase in our current assets. The decrease in our current ratio as at 31 May 2019 was mainly due to increase in our current liabilities.

Quick ratio

Our quick ratio remained relatively stable at approximately 0.7 time and 0.8 time as at 31 December 2016 and 2017, respectively. Our quick ratio then increased slightly to approximately 1.0 time as at 31 December 2018. Our quick ratio then decreased to approximately 0.6 times as at 31 May 2019, mainly due to increase in our current liabilities and inventories.

Gearing ratio

Our gearing ratio was approximately 148.2%, 107.4% and 79.9% for the years ended 31 December 2016, 2017 and 2018, respectively. The continuous decrease in our gearing ratio during Track Record Period was mainly due to increase in net profit for the years ended 31 December 2017 and 2018, respectively, and hence increased total equity. Our gearing ratio then increased to approximately 109.7% for the five months ended 31 May 2019, primarily due to decrease in equity mainly due to the Reorganisation.

Interest coverage

The interest coverage decreased from approximately 26.1 times for the year ended 31 December 2016 to approximately 7.1 times for the year ended 31 December 2017, primarily due to the combined effect of (i) the increase in profit before interest and tax for the year ended 31 December 2017; and (ii) increase in finance costs for the year ended 31 December 2017 as a result of raising bank loan near the end of 2016. The interest coverage then increased slightly to approximately 9.3 times for the year ended 31 December 2018, mainly attributable to increase in the profit before interest and tax in 2018. The interest coverage then decreased slightly to approximately 8.4 times for the five months ended 31 May 2019, mainly due to increase in listing expenses incurred for the five months ended 31 May 2019.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to market risks from changes in market rates and prices, such as interest rates, foreign currency, credit and liquidity. Details of the risks to which we are exposed to are set out in Note 39 to the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

LISTING EXPENSES

Assuming the Offer Price of HK$2.13 per Offer Share, being the mid-point of the indicative Offer Price range stated in this prospectus, the total amount of expenses in relation to the Listing including the underwriting commission and other listing expenses and fees are estimated to be approximately HK$42.3 million (equivalent to approximately RMB36.4 million) which shall be borne by our Company. During the Track Record Period, we incurred listing expenses of approximately HK$12.9 million (equivalent to approximately RMB11.1 million) which has been charged to our consolidated statements of profit or loss and other comprehensive income. It is estimated that approximately HK$16.5 million (equivalent to approximately RMB14.2 million) will be charged to our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period, and approximately HK$9.1 million (equivalent to approximately RMB7.8 million) is estimated to be directly attributable to the issue of the new Shares and is to be accounted for as a deduction from the equity in accordance with the relevant accounting standard after Listing. The estimated listing-related expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Company upon the completion of the Listing. We expect that the Listing expenses may have a negative impact on our results of operations.

INVESTMENT POLICY

Our Group generally invested in structured bank deposits which typically invest in financial instruments including listed shares, bonds, debentures and other financial assets during the Track Record Period. We have established a set of investment strategies and internal policies in respect of buying financial assets which include:

— reviewing our cash position and identifying the idle cash for investment in financial assets;

— outlining the objective and expected return rate of each investment;

— generally investing in financial products with an investment horizon of one year or less;

— approving the investment by our Board for investment amount over RMB30 million; and

— monitoring the investment and performance on a regular basis.

During the Track Record Period, our Directors and financial deputy general manager was responsible for the management and monitoring of our treasury and investment activities, and reviewed our assets on a regular basis.

DIVIDEND POLICY

During the Track Record Period, no dividend has been paid or declared by our Company since its date of incorporation. The dividends declared and paid by Jinan Ma Steel to its then shareholders was approximately RMB22.6 million, nil, nil and nil for the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019, respectively. The declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Any dividends declared will be in RMB with respect to our Shares on a per share basis, and our Company will pay such dividends in RMB.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 1 February 2019 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

After the Track Record Period and up to the Latest Practicable Date, our production plant in Vietnam commenced manufacturing of standard prefabricated pipe nipple products. As at the Latest Practicable Date, we had a total of 81 employees in Vietnam for the daily operation of our production.

To expand our product offerings, we acquired an ERW steel pipes production line for welding and coating at an acquisition cost of approximately RMB10.4 million and RMB1.4 million, respectively. With respect to our ERW production line for welding, the production capacity is approximately 20,752 tons per year. As to our ERW production line for coating, the production capacity is approximately 11,438 tons per year. Both of the production lines were located at our PRC production facilities and commenced operation in June 2019.

Based on the management accounts of our Group, for the nine months ended 30 September 2019, our Group recorded a relatively lower revenue and gross profit as compared with the corresponding period in 2018, mainly due to the decline in revenue generated from standard prefabricated pipe nipples as affected by the trade tension between the U.S. and the PRC. Our Directors expect that our financial performance for the year ending 31 December 2019 may decline as compared to that of the year ended 31 December 2018, mainly due to the aforementioned reasons.

As at 31 May 2019, amounts due to shareholders/former shareholders amounted to approximately RMB162.7 million which represent cash consideration of the entire equity interest of Jinan Mech to Tube Industry Limited under the Reorganisation. The amounts are non-trade nature, unsecured, interest-free and repayable on demand. The amounts was fully settled by borrowing a loan amounted to RMB162.7 million from some of our shareholders including Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI by Tube Industry Investments before the Latest Practicable Date. Such loan was then fully settled by Tube Industry Investments allotting and issuing 10,000 ordinary shares to Guan Dao Investments.

Our Directors confirmed that, save for disclosed above, after the Track Record Period and up to the date of this prospectus: (i) there had been no material adverse change in the market conditions or the industry and environment in which our Group operates that materially and adversely affect our financial and operation position; (ii) there was no material adverse change in the trading and financial position or prospect of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report in Appendix I to this prospectus.

FUTURE PLANS

See "Business — Our business strategies" for detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering, and assuming an Offer Price of HK$2.13 per Offer Share, being the mid-point of the indicative Offer Price range) will be approximately HK$167.3 million. We currently intend to apply such net proceeds in the following manner:

- approximately 19.0% or approximately RMB27.3 million (equivalent to approximately HK$31.8 million), will be used for increasing our production capacity of our production of ERW steel pipes by addition of three new production lines. Out of the three production lines, two of them will be used to produce high-quality ERW steel pipes with different specifications to satisfy our customers' needs and to diversify our product offerings, while the other new production line will focus on paint coating treatment. For details of the new production lines, please see "Business — Our business strategies — Increase our production capacity of ERW steel pipes by the addition of new production lines";

- approximately 22.3% or approximately RMB32.1 million (equivalent to approximately HK$37.3 million), will be used for strengthening our competitiveness by upgrading one of our SSAW steel pipes production line; and approximately 9.4% or approximately RMB13.5 million (equivalent to approximately HK$15.7 million), will be used for setting up a new production facilities building for our SSAW production facilities. Our Directors intend to set up a new production facilities building on the plot of land owned by us which is adjacent to our production facilities and to house our production line of 2540 SSAW steel pipes;

- approximately 9.4% or approximately RMB13.5 million (equivalent to approximately HK$15.7 million), will be used for expanding to overseas to increase the production capacity. As at the Latest Practicable Date, our Group had leased a production plant in Dong Nai, Vietnam which was built on a land piece with total land area of approximately 8,043.0 sq.m.. We intend to acquire an additional of three production lines in the production plant in Vietnam. Details of the production lines are set out in "Business — Our business strategies — Expand our production to Vietnam";

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for expanding our business horizontally through acquisition/collaboration to continue to broaden our production offerings and thereby further enhance our market penetration;

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for further strengthen our research and development capabilities by investing on four research and development projects;

- approximately 10.0% or approximately RMB14.4 million (equivalent to approximately HK$16.7 million), will be used for the repayment of part of our borrowings. We intend to repay a loan advanced by Industrial and Commerce Bank of China to our Group pursuant to a loan agreement dated 25 March 2019 which Industrial and Commerce Bank of China agreed to advance an amount of RMB100.0 million to our Group for a term of one year with an effective interest rate of the loan prime rate plus 0.04% per annum. We primarily used the proceeds of this loan for our operating activities; and

- approximately 9.9% or approximately RMB14.3 million (equivalent to approximately HK$16.7 million), will be used for our general working capital.

If the Offer Price is set at HK$2.40 per Offer Share (being the high-end of the indicative Offer Price), HK$1.86 per Offer Share (being the low-end of the indicative Offer Price) or any price in between, we intend to apply the net proceeds to the above purposes on a pro-rata basis.

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds from the Global Offering are not immediately required for the above purposes or if we are unable to effect any part of our future development plans as intended, we may hold such funds in short-term deposits with licensed banks and authorised financial institutions for so long as it is in our best interests.

REASONS FOR THE LISTING

We will continue to actively seek business opportunities to both in the PRC and around the globe in order to achieve sustainable growth win our business, further strengthen our position in the standard prefabricated pipe nipple products and steel pipe products industry and increase long-term shareholder value.

According to the Frost & Sullivan Report, over the past five years, the market size of ERW steel pipes and SSAW steel pipes have increased at a CAGR of 0.8% and 0.7%, respectively. With the rising application of ERW steel pipes and SSAW steel pipes, such as the underground urban electricity and telecom network, the market size of both types of pipes is expected to continue to grow in the next five years, reaching RMB44.0 billion and RMB127.0 billion in 2023, respectively. In terms of pipe nipples, a growth in export value in the PRC is also anticipated, with an export value increasing from approximately 281,000 tons in 2018 to 330,300 tons in 2023. As the industry continues to evolve and mature, we believe we will have opportunities to expand our business operations in the future.

In view of the expected growth in the industry, we intend to cultivate new business opportunities actively by expanding our production capacity for ERW steel pipes by the addition of new production lines and replacing our aged SSAW steel pipe production line. We also expect to expand our production in Vietnam. Given that we have recorded high utilisation rates for our production facilities during the Track Record Period and thereby turned down a number of orders from our customers, our Directors believe that, by expanding our production capacity, we will be able to capture more opportunities from the expanding market and achieve growth in the future.

During the Track Record Period, we have achieved a considerable growth in business in terms of revenue and gross profit. For the three years ended 31 December 2018 and the five months ended 31 May 2019, we recorded revenue of RMB452.3 million, RMB938.2 million, RMB1,214.8 million and RMB405.0 million, respectively, while we recorded gross profit of RMB79.9 million, RMB214.7 million, RMB279.2 million and RMB92.1 million, respectively.

Based on all the foregoing, we intend to apply the net proceeds from the Global Offering to, among others, upgrade our SSAW steel pipes production line, increase our production capacity of our production of ERW steel pipes, horizontally expand by acquisition/collaboration, and strengthen our research and development capabilities. For details on how we intend to implement such strategies, please see "Use of Proceeds" above. Our Directors are of the view that the net proceeds of the Global Offering will facilitate the implementation of our strategies and will further strengthen our market position in the steel pipe products and standard prefabricated pipe nipple products industry in general for the reasons below.

Commercial rationale in opting for capital financing

Our Directors are of the view that the Global Offering will enhance our brand awareness and image among customers and suppliers, which may assist us to further develop our customer and supplier base and enable us to be considered more favourable by our customers. As a listed company, potential customers and suppliers are more likely to do business with us given the greater transparency on financial disclosure, stricter relevant regulatory supervision, a well-established internal control and corporate governance system and higher level of stability financially in light of additional platform to raise necessary funds for operation and expansion.

After the Listing, our Directors believe that our public image will be further enhanced in the eyes of prospective and existing customers which will increase our chance to secure orders and their willingness in choosing our services as compared to the services of other non-listed competitors. In addition, we believe that our Company will be able to more effectively retain our existing staff and recruit potential talents to enhance our services in the industry.

Our Directors are also of the view that equity financing will allow our Group to have a greater flexibility to adjust our capital structure according to the changing market situations and thereby enabling us to better preserve the value of our Shares. By solely rely on debt financing, our Group will be exposed to risk of interest rate fluctuations and early repayment demands by banks under banking facilities due to unforeseeable economic environment.

THE CORNERSTONE PLACING

We, the Sole Global Coordinator and Zhongtai International Securities Limited have entered into a cornerstone investment agreement dated 26 November 2019 with Shanghai Heng Yuan International Investment Limited* (上海恒源國際投資有限公司) (as investor) (the "**Cornerstone Investor**") and Zhao Pu (趙璞) (as guarantor) (the "**Guarantor**") ("**Cornerstone Investment Agreement**"), pursuant to which the Cornerstone Investor has agreed to subscribe for 22,000,000 Shares at the Offer Price (the "**Cornerstone Placing**").

Our Cornerstone Investor

Set forth below is the information about the Cornerstone Investor provided by Cornerstone Investor:

The Cornerstone Investor is an investment holding company established in the PRC in 2015 and is principally engaged in enterprise investment and management consultancy, including film and television, education and real estate industry. The Cornerstone Investor is owned by Gao Jianfang (高建芳) and Zhao Pu (趙璞), both of which are Independent Third Parties. Zhao Pu, who is also a director of the Cornerstone Investor, through his family business as real estate developer in Jinan, became acquainted with us through family members who are in real estate development industry.

The Cornerstone Investor has a variety of investment in different sectors such as film and television and real estate industry. It strives to further diversify its investment by investing in our Company. Since we are a market player in the steel pipes industry in Jinan and that such products are used in the real estate development process, the Cornerstone Investor's investment in our Company may pave way for future business cooperation with our Group.

The table below sets out the number of Offer Shares that the Cornerstone Investor would subscribe for and the respective approximate percentages it represents of (i) the International Placing Shares; (ii) the Offer Shares; and (iii) the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering (assuming no exercise of any share option that may be granted under the Share Option Scheme).

	Total number of Offer Shares to be subscribed by the Cornerstone Investor	Approximate percentage of the International Placing Shares	Approximate percentages of the Offer Shares	Approximate percentages of the Shares in issue immediately following completion of the Capitalisation Issue and the Global Offering
Assuming an Offer Price of HK$1.86 (being the low-end of the indicative Offer Price range stated in this prospectus)	22,000,000	24.8%	22.4%	5.1%
Assuming an Offer Price of HK$2.13 (being the mid-point of the indicative Offer Price range stated in this prospectus)	22,000,000	24.8%	22.4%	5.1%
Assuming an Offer Price of HK$2.40 (being the high-end of the indicative Offer Price range stated in this prospectus)	22,000,000	24.8%	22.4%	5.1%

The Cornerstone Investor agrees and undertakes that the subscription of the Offer Shares will be conducted through an asset manager which is a qualified domestic institutional investor (the "**QDII Manager**") and that it will procure the due and punctual performance and observance by the QDII Manager of all of the obligations, undertakings, representations, warranties, indemnities and liabilities of the Cornerstone Investor arising out of, under or in connection with the Cornerstone Investment Agreement.

The Cornerstone Placing forms part of the International Placing. Other than the subscription pursuant to the Cornerstone Investment Agreement, the Cornerstone Investor has agreed not to subscribe for any Offer Shares under the Global Offering.

The Offer Shares to be subscribed for by the Cornerstone Investor may be adjusted by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offer. In the event of over-subscription under the Hong Kong Public Offer as described in "Structure and Conditions of the Global Offering — The Hong Kong Public Offer", the number of Offer Shares to be subscribed for by the Cornerstone Investor may be adjusted by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offer. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investor and the aggregate subscription price will be disclosed in the allotment results announcement to be issued by our Company on or around 17 December 2019.

To the best knowledge of our Directors after making reasonable enquiries, as at the date of this prospectus, the Cornerstone Investor and its ultimate beneficial owner (a) is an Independent Third Party and independent from our connected persons and their respective close associates (as defined in the Listing Rules); (b) save as disclosed in this section, has no past or present relationship with our Directors, our Controlling Shareholders, our senior management or any of their respective associates. The Cornerstone Investor and its ultimate beneficial owners have confirmed that: (i) the respective investments made by the Cornerstone Investor in respect of the Cornerstone Placing are financed by their own fund and are not, either directly or indirectly, financed by our Company, our Controlling Shareholders, our Directors, the Sole Sponsor, the Underwriters or any of their affiliates; (ii) it has not entered into any side agreements or arrangements with our Directors, our Controlling Shareholders, our senior management or any of their respective associates; and (iii) he is not accustomed to take instructions from our Company or any of its core connected person in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his name or otherwise held by him. The Offer Shares to be subscribed for by the Cornerstone Investor will be counted towards the public float of our Company under Rules 8.01 and 8.24 of the Listing Rule and will rank *pari passu* in all respects with the other fully paid Shares in issue upon completion of the Global Offering. Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any Board representation in our Company, nor will it become a substantial shareholder of our Company.

CONDITIONS PRECEDENT

The subscription obligation of the Cornerstone Investor is conditional only upon, each of the following conditions having been satisfied or waived:

(i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated by no later than the time and date as specified in those underwriting agreements in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties;

(ii) the Offer Price having been agreed upon between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) in connection with the International Placing;

(iii) the Listing Committee of the Stock Exchange having granted or agreed to grant the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and that such approval or permission having not been revoked prior to the commencement of dealings in the Shares on the Stock Exchange;

(iv) the respective representations, warranties, undertakings, confirmations and acknowledgements of the Cornerstone Investor and our Company in the Cornerstone Investment Agreement are and will be accurate and true in all material respects and not misleading and there being no material breach of the Cornerstone Investment Agreement on the part of the Cornerstone Investor, the Guarantor and our Company; and

(v) no laws having been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offer, the International Placing or herein and no orders or injunctions from a governmental authority in effect precluding or prohibiting consummation of such transactions contemplated under the Global Offering or the Cornerstone Investment Agreement.

Subject to fulfilment of the above conditions precedent, the completion of the Cornerstone Placing shall occur simultaneously with the closing of the International Placing under the Cornerstone Investors Agreement, pursuant to which the investment amount payable by the Cornerstone Investor shall be settled upon the Listing Date and the timing and manner of delivery of such Shares issued and allotted pursuant to the Cornerstone Placing shall be the same as those Shares issued and allotted through International Placing.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

The Cornerstone Investor and the Guarantor have agreed that, among other things, without the prior written consent of our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), it will not, whether directly or indirectly, at any time during the period of six (6) months starting from the Listing Date (the "**Lock-up Period**"), (i) dispose of (as defined in the Cornerstone Investment Agreement) any of the relevant Offer Shares or any interest in any company or entity holding any of the relevant Offer Shares, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary of such Cornerstone Investor provided that, amongst other requirements, such wholly-owned subsidiary undertakes to, and the Cornerstone Investor undertakes to procure that such subsidiary will, abide by such restrictions imposed on the Cornerstone Investor, (ii) allow itself to undergo a change of control (which has the meaning ascribed to it under the Takeovers Code) at the level of its ultimate beneficial owner, or (iii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction. The Cornerstone Investor and the Guarantor agree and undertake that, save that with the prior written consent of our Company and the Sole Global Coordinator, the aggregate holding (direct and indirect) of the Cornerstone Investor and the Guarantor (through the QDII Manager), their associates and any other companies under management and control of the Cornerstone Investor (through the QDII Manager) in the total issued share capital in our Company shall be less than 10% (or such other percentage as provided in the Listing Rules from time to time for the definition of "substantial shareholders") of our Company's entire issued share capital at all times.

After expiration of the Lock-up Period, the Cornerstone Investor shall, subject to requirements under applicable laws and regulations and as specified in the relevant Cornerstone Investment Agreement, be free to dispose of any Relevant Shares. The Cornerstone Investor and the Guarantor shall ensure that any such disposal will not create a disorderly or false market in the Shares and is otherwise in compliance with the SFO and all applicable laws and regulations.

During the Lock-up Period, the Cornerstone Investor may transfer the relevant Offer Shares in certain limited circumstances as permitted in the Cornerstone Investment Agreement, such as transfer to a wholly-owned subsidiary of the relevant Cornerstone Investor, provided that prior to such transfer, such wholly-owned subsidiary undertakes in writing in favour of our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Cornerstone Investor undertakes to procure, that such wholly-owned subsidiary, to be bound by the Cornerstone Investor's obligations and the restrictions on disposals imposed on such Cornerstone Investor prescribed under the Cornerstone Investment Agreement.

HONG KONG UNDERWRITERS

Fortune (HK) Securities Limited
Livermore Holdings Limited
Zhongtai International Securities Limited
First Shanghai Securities Limited
CVP Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 9,840,000 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

(a) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and

(b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sole Global Coordinator:

(i) that any statement of material fact contained in any of this prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the "**Relevant Documents**"), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter in connection with the Group or the Global Offering has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or

(iii) any material breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or

(iv) any material event, act or omission which gives or is likely to give rise to any material liability of any of our Company, our executive Directors and the Controlling Shareholders (the "**Warrantors**") pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or

(v) any material adverse change or any development involving a prospective material adverse change in the assets, liabilities, management, business prospects, profits, losses, results of operations, position or conditions (financial, trading or business) or performance of our Group as a whole in any material respect; or

(vi) any material breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement; or

(vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, or is qualified (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

(viii) our Company withdraws any of the Relevant Documents or the Global Offering; or

(ix) any expert has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Relevant Documents; or

(x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company, which would have a Material Adverse Effect; or

(xi) any material loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(b) there shall develop, occur, exist or come into effect:

(i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation) in or affecting Hong Kong or the PRC (the "**Specific Jurisdictions**"); or

(ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets) in or affecting any of the Specific Jurisdictions; or

(iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange and the Shenzhen Stock Exchange; or

(iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgement(s), decree(s) or ruling(s) of any governmental authority ("**Law(s)**"), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of the Specific Jurisdictions; or

(v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or

(vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or

(viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in "Risk Factors"; or

(ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or

(x) any of the Directors and senior management member of our Company as set out in "Directors and Senior Management" 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

(xi) the chairman or chief executive officer of our Company vacating his or her office; or

(xii) the commencement by any governmental, regulatory or political body or organisation in any of the Specific Jurisdictions of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering, which would have a Material Adverse Effect; or

(xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Listing Rules or any other Laws applicable to the Global Offering; or

(xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC, which materially and adversely affect the Global Offering; or

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity and the relevant member of the Group fails to make such repayment or payment within the valid period of repayment,

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(a) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

(b) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Placing; or

(c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or

(d) has or will 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 which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that except pursuant to the Global Offering, it shall not:

(a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the "**Relevant Shares**"); or

(b) in the period of a further six months commencing on the date on which the period referred to in paragraph (a) above 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 Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

(a) when it pledges or charges any securities in our Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and

(b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings given to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that except pursuant to the Global Offering and the exercise of any options granted or to be granted under 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 (the "**First Six-Month Period**"), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect ("**Encumbrance**") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; 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 Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or

(c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that any of our Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the "**Second Six-Month Period**").

In the event that, during the Second Six-Month Period, 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, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

By our Controlling Shareholders

Each of our Controlling Shareholders has undertaken jointly and severally to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, except in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the "**Controlled Entities**") shall not,

(a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the "**Relevant Securities**"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; 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 the Relevant Securities; or

(c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or

(d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

(ii) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he/she would cease to be a "controlling shareholder" (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be "Controlling Shareholders" (as defined in the Listing Rules) of our Company;

(iii) in the event that it/he/she enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and

(iv) it/he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

(i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The International Placing

International Placing

In connection with the International Placing, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares initially being offered pursuant to the International Placing. Please refer to "Structure and Conditions of the Global Offering — International Placing".

Total Commission and Expenses

We will pay the Sole Global Coordinator (for itself and on behalf of the other Underwriters) an underwriting commission of 3.0% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer (excluding any International Placing Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters, but not the Hong Kong Underwriters.

Based on an Offer Price of HK$2.13 (being the mid-point of the stated Offer Price range between HK$1.86 and HK$2.40), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK$42.3 million in total and are payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, 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 GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offer of initially 9,840,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described below in the paragraph headed "The Hong Kong Public Offer"; and
- the International Placing of initially 88,560,000 Offer Shares (subject to reallocation as described below) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offer; or
- apply for or indicate an interest for the International Placing Shares under the International Placing,

but may not do both.

The 98,400,000 Offer Shares in the Global Offering will represent 22.683% of our enlarged share capital immediately after the completion of the Capitalisation Issue and the Global Offering, without taking into account of the exercise of any options that may be granted under the Share Option Scheme.

References to applications, application forms, application monies or procedure for applications relate solely to the Hong Kong Public Offer.

THE HONG KONG PUBLIC OFFER

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 9,840,000 Offer Shares, representing 10.0% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of Offer Shares offered under the Hong Kong Public Offer will represent approximately 2.3% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering, without taking into account of any Shares to be issued pursuant to the exercise of options granted under the Share Option Scheme.

The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offer is subject to the conditions as set forth below in "Conditions of the Global Offering".

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offer is to be divided equally into two pools:

- ***Pool A***: The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and

- ***Pool B***: The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the "subscription price" for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offer and any application for more than 4,920,000 Hong Kong Offer Shares will be rejected.

Reallocation

Paragraph 4.2 of Practice Note 18 of the Listing Rules and the Guidance Letter HKEX-GL91-18 require 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 Offer to a certain percentage of the total number of Offer Shares offered under the Global Offering if certain prescribed total demand levels are reached. The allocation of the Offer Shares between the Hong Kong Public Offer and the International Placing is subject to reallocation at the discretion of the Sole Global Coordinator, subject to the following:

(a) where the International Placing Shares are fully subscribed or oversubscribed:

(i) if the Hong Kong Offer Shares are undersubscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offer, then up to 9,840,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased up to 19,680,000 Offer Shares, representing 20.0% of the total number of the Offer Shares initially available under the Global Offering;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offer represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offer, the Offer Shares will be reallocated to the Hong Kong Public Offer from the International Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Hong Kong Offer Shares will be increased to 29,520,000 Offer Shares (in the case of (1)), 39,360,000 Offer Shares (in the case of (2)) and 49,200,000 Offer Shares (in the case of (3)), representing 30.0%, 40.0% and 50.0% of the Offer Shares initially available under the Global Offering, respectively;

(b) where the International Placing Shares are undersubscribed:

(i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for 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 this prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 9,840,000 Offer Shares may be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offer will be increased up to 19,680,000 Offer Shares, representing 20.0% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK$1.86 per Offer Share) according to Stock Exchange Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the International Placing to the Hong Kong Public Offer, the additional Offer Shares reallocated to the Hong Kong Public Offer will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Placing will be correspondingly reduced. The above clawback mechanism complies with paragraph 4.2 of Practice Note 18 of the Listing Rules and the Stock Exchange's Guidance Letter HKEX–GL91–18.

Applications

Each applicant under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has 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 International Placing Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Placing Shares under the International Placing.

Applicants under the Hong Kong Public Offer are required to pay, on application, maximum price of HK$2.40 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% on each Offer Share, amounting to a total of HK$4,848.37 for one board lot of 2,000 Shares. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in the paragraph headed "Pricing and Allocation", is less than the maximum price of HK$2.40 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Placing 88,560,000 Offer Shares, representing 90.0% of the Offer Shares under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offer, the number of Offer Shares offered under the International Placing will represent approximately 20.4% of our enlarged issued share capital immediately after completion of the Capitalisation Issue and the Global Offering, without taking into account of any Shares to be issued pursuant to the exercise of options granted under the Share Option Scheme.

Allocation

The International Placing Shares will conditionally be offered to selected professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the International Placing Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to the Price Determination Date.

Allocation of the International Placing Shares pursuant to the International Placing will be determined by the Sole Global Coordinator and 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 relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offer to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offer and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offer.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Placing may change as a result of the clawback arrangement as described above in "The Hong Kong Public Offer — Reallocation" and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offer.

PRICING AND ALLOCATION

Our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Monday, 9 December 2019, and in any event, not later than Thursday, 12 December 2019.

The Offer Price will not be more than HK$2.40 per Offer Share and is expected to be not less than HK$1.86 per Offer Share, unless otherwise announced, as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offer, you must pay the maximum price of HK$2.40 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% fee, amounting to a total of HK$4,848.37 for one board lot of 2,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than HK$2.40 per Offer Share, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see "How to Apply for Hong Kong Offer Shares" in this prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer publish a notice on our website at **www.mechpipingtech.com** and the website of the Stock Exchange at **www.hkexnews.hk** (the contents of the website do not form a part of this prospectus). 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 by us, will be fixed within such revised offer price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in "Summary", and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offer, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants 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.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offer and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offer shall not be less than 10.0% of the total number of Offer Shares available under the Global Offering (without taking into account of any Shares to be issued pursuant to the exercise of options granted under the Share Option Scheme).

The final Offer Price, the level of indication of interest in the International Placing, the basis of allotment of Offer Shares available under the Hong Kong Public Offer and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer are expected to be made available in a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus;
- the Offer Price having been agreed between us and the Sole Global Coordinator (for itself and on behalf the Underwriters);
- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Sunday, 29 December 2019, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Thursday, 12 December 2019, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offer and the International Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offer will be published on our website at **www.mechpipingtech.com** and the website of the Stock Exchange at **www.hkexnews.hk** on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares — 13. Refund of Application Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

UNDERWRITING AGREEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to, among other conditions, us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

We expect to enter into the International Underwriting Agreement relating to the International Placing on the Price Determination Date.

Certain terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarised in "Underwriting".

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 18 December 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 18 December 2019.

The Shares will be traded in board lots of 2,000 Shares each. The stock code of our Shares will be 1553.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.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.

The Company, the Sole Global Coordinator, the **White Form eIPO** 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 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 **White Form eIPO** 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 Sole Global Coordinator may accept it at their discretion and on any conditions they think 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 **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong 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;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering;
- a close associate of any of the above; or
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong 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 Friday, 29 November 2019 to 12:00 noon on Monday, 9 December 2019 from:

(i) any of the following offices of the Joint Bookrunners:

Fortune (HK) Securities Limited
43/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Livermore Holdings Limited
Unit 1214A, 12/F Tower II Cheung Sha Wan Plaza
833 Cheung Sha Wan Road
Kowloon, Hong Kong

Zhongtai International Securities Limited
19/F Li Po Chun Chambers
189 Des Voeux Road Central
Central
Hong Kong

First Shanghai Securities Limited
19/F & Room 2505–10, Wing On House
71 Des Voeux Road Central
Hong Kong

(ii) any of the designated branches of the following receiving bank:

Bank of China (Hong Kong) Limited

District	**Branch Name**	**Address**
Hong Kong Island	Causeway Bay Branch	505 Hennessy Road, Causeway Bay, Hong Kong
Kowloon	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan, Kowloon
	Yu Chau Street Branch	42–46 Yu Chau Street, Sham Shui Po, Kowloon
New Territories	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 November 2019 until 12:00 noon, on Monday, 9 December 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 — MAIKE TUBE INDUSTRY 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:

- 9:00 a.m. to 5:00 p.m., Friday, 29 November 2019
- 9:00 a.m. to 1:00 p.m., Saturday, 30 November 2019
- 9:00 a.m. to 5:00 p.m., Monday, 2 December 2019
- 9:00 a.m. to 5:00 p.m., Tuesday, 3 December 2019
- 9:00 a.m. to 5:00 p.m., Wednesday, 4 December 2019
- 9:00 a.m. to 5:00 p.m., Thursday, 5 December 2019
- 9:00 a.m. to 5:00 p.m., Friday, 6 December 2019
- 9:00 a.m. to 1:00 p.m., Saturday, 7 December 2019
- 9:00 a.m. to 12:00 noon, Monday, 9 December 2019

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 9 December 2019, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications 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 **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agent or nominee), 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 Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(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 Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers 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 Global Coordinator and the Underwriters nor any of their respective officers or advisers 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 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 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 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 Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-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 are eligible 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 Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 **White Form eIPO** 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 WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "Who can apply" section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** 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 **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m., on Friday, 29 November 2019 until 11:30 a.m., on Monday, 9 December 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon, on Monday, 9 December 2019 or such later time under the "Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** service more than once and obtaining different application 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 **White Form eIPO** 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 the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of White Form eIPO is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK$2 for each "MAIKE TUBE INDUSTRY HOLDINGS LIMITED" White Form eIPO application submitted via the website **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong 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 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 Center
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 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 Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong 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 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 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;

- 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 Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 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 Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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 Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers 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 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 Offer 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 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 of Association; 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 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 Offer Shares. Instructions for more than 2,000 Hong Kong 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 Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates[(1)]:

- 9:00 a.m. to 8:30 p.m., Friday, 29 November 2019
- 8:00 a.m. to 8:30 p.m., Monday, 2 December 2019
- 8:00 a.m. to 8:30 p.m., Tuesday, 3 December 2019
- 8:00 a.m. to 8:30 p.m., Wednesday, 4 December 2019
- 8:00 a.m. to 8:30 p.m., Thursday, 5 December 2019
- 8:00 a.m. to 8:30 p.m., Friday, 6 December 2019
- 8:00 a.m. to 1:00 p.m., Saturday, 7 December 2019
- 8:00 a.m. to 8:30 p.m., Monday, 9 December 2019

CCASS Investor Participants can input electronic application instructions from 9:00 a.m., Friday, 29 November 2019 until 12:00 noon, Monday, 9 December 2019 (24 hours daily, except on 9 December 2019, the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon, Monday, 9 December 2019, the last application day or such later time as described in "Effect of Bad Weather 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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 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 (as applied by Section 342E 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 Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers 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 Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** 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. The Company, the Directors, the Sole Sponsor, the Joint Bookrunners, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong 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/CASS 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, Monday, 9 December 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong 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 **White Form eIPO** 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 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 **White Form eIPO** service in respect of a minimum of 2,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 2,000 Hong Kong 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.eipo.com.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, see the section headed "Structure and Condition of the Global Offering — Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warming signal number 8 or above;
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 9 December 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions 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 Monday, 9 December 2019 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions 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

The 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 Offer and the basis of allocation of the Hong Kong Offer Shares on our Company's website at **www.mechpipingtech.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 Offer 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.mechpipingtech.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m., on Tuesday, 17 December 2019;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m., Tuesday, 17 December 2019 to 12:00 midnight, Monday, 23 December 2019;

- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Tuesday, 17 December 2019 to Friday, 20 December 2019;

- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 17 December 2019 to Thursday, 19 December 2019 at all the receiving bank's designated branches.

If our Company accepts your offer to purchase (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 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 Condition 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 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 **White Form eIPO** 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 (as applied by Section 342E 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:

The Company, the Sole Global Coordinator, the **White Form eIPO** 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 Offer Shares is void:

The allotment of Hong Kong 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 Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **White Form eIPO** 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 Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50.0% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

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$2.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with "Structure and Conditions of the Global Offering — The Hong Kong Public Offer" 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 or before Tuesday, 17 December 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (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 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 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 arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Tuesday, 17 December 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., Wednesday, 18 December 2019 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus 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 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 Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 December 2019 or such other date as notified by us in the newspapers.

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 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 less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Tuesday, 17 December 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 Offer Shares or more, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Tuesday, 17 December 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 Tuesday, 17 December 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 Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in "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 Tuesday, 17 December 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong 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 White Form eIPO service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 17 December 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-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 Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 17 December 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-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 Offer Shares

For the purposes of allocating Hong Kong 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 Tuesday, 17 December 2019, or, on any other date determined by HKSCC or HKSCC Nominees.

- The 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 Offer in the manner specified in "Publication of Results" above on Tuesday, 17 December 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 17 December 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 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 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 Tuesday, 17 December 2019.

Immediately following the credit of the Hong Kong 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 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 Tuesday, 17 December 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 adviser 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 page I-1 to I-73 received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purposes of incorporation in this document.

Deloitte. 德勤

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF MAIKE TUBE INDUSTRY HOLDINGS LIMITED AND FORTUNE FINANCIAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Maike Tube Industry Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-73, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 31 May 2019, the statement of financial position of the Company as at 31 May 2019 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 December 2018 and the five months ended 31 May 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-73 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 November 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 (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the 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 the

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 of the Company, 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 purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2016, 2017 and 2018 and 31 May 2019, of the Company's financial position as at 31 May 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 comparative financial information

We have reviewed the stub period comparative 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 statement of cash flows for the five months ended 31 May 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative 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 Comparative 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 inquiries, 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 Comparative Financial Information, for the purposes 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 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 12 to the Historical Financial Information which contains information about the dividends declared and paid by the group entities comprising the Group in respect of the Track Record Period and states that no dividends have been declared by the Company since its incorporation.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 November 2019

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group for the Track Record Period. The consolidated financial statements have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company, and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000	Five months ended 31 May 2018 RMB'000 (unaudited)	2019 RMB'000
Revenue	5	452,283	938,169	1,214,839	444,828	411,414
Cost of sales		(372,396)	(723,420)	(935,687)	(348,328)	(317,770)
Gross profit		79,887	214,749	279,152	96,500	93,644
Other income	7	361	64	399	189	555
Other gains and losses	7	5,801	(944)	1,090	(1,445)	6,074
Distribution and selling expenses		(20,624)	(48,445)	(65,909)	(25,054)	(21,881)
Administrative expenses		(11,711)	(22,626)	(26,248)	(9,245)	(9,446)
Research and development costs		(21,871)	(33,845)	(49,990)	(17,323)	(17,614)
Impairment losses on trade receivables and contract assets	8	(1,547)	(2,769)	(92)	(338)	(479)
Finance costs	9	(1,159)	(14,957)	(14,464)	(5,864)	(5,251)
Listing expenses		—	—	(4,523)	—	(6,609)
Profit before taxation	10	29,137	91,227	119,415	37,420	38,993
Taxation charge	11	(4,952)	(13,650)	(17,944)	(6,135)	(6,732)
Profit for the year/period		24,185	77,577	101,471	31,285	32,261
Other comprehensive income						
Item that may be reclassified subsequently to profit or loss:						
Exchange difference arising on translation of foreign operation		—	—	—	—	149
Total comprehensive income for the year/period		24,185	77,577	101,471	31,285	32,410
Profit for the year/period attributable to:						
Owner of the Company		4,571	39,837	52,146	16,071	19,930
Non-controlling interests		19,614	37,740	49,325	15,214	12,331
		24,185	77,577	101,471	31,285	32,261
Total comprehensive income for the year attributable to:						
Owners of the Company		4,571	39,837	52,146	16,071	20,159
Non-controlling interests		19,614	37,740	49,325	15,214	12,251
		24,185	77,577	101,471	31,285	32,410
Earnings per share						
Basic *(RMB yuan)*	13	0.059	0.232	0.303	0.093	0.091

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000	As at 31 May 2019 RMB'000
Non-current assets					
Property, plant and equipment	14	209,894	200,184	208,386	222,499
Deferred tax assets	15	2,851	1,247	1,799	1,370
Deposits for plant and equipment		114	705	4,221	3,525
		212,859	202,136	214,406	227,394
Current assets					
Inventories	16	114,236	181,759	177,827	248,481
Trade receivables	17	94,645	165,954	165,181	165,764
Trade receivables backed by bills	18	20,753	47,903	50,170	19,152
Contract assets	20	4,662	7,102	18,774	13,953
Deposits, prepayments and other receivables	21	42,877	45,084	40,722	56,153
Amounts due from related parties	22	30,200	6,801	4,392	408
Financial assets at fair value through profit or loss ("FVTPL")	23	1,000	4,000	86,843	14,500
Pledged bank deposits	24	—	12,009	3,284	5,201
Bank balances and cash	24	52,857	53,789	46,450	38,399
		361,230	524,401	593,643	562,011
Current liabilities					
Trade and bills payables	25	35,630	85,116	51,570	41,862
Contract liabilities	26	3,877	5,213	16,402	16,060
Derivative financial instruments	27	—	—	179	—
Refund liabilities	28	—	6,345	15,781	10,928
Other payables and accrued charges	29	16,651	20,391	25,996	31,700
Amounts due to a related party	22	14,845	26,751	11,559	—
Amounts due to shareholders/former shareholders	22	—	—	—	162,670
Provisions		—	1,210	1,337	1,597
Tax payable		529	781	4,094	3,929
Borrowings	30	300,078	300,674	300,247	270,335
Lease liabilities	31	—	—	730	762
		371,610	446,481	427,895	539,843
Net current (liabilities) assets		(10,380)	77,920	165,748	22,168
Total assets less current liabilities		202,479	280,056	380,154	249,562
Non-current liability					
Lease liabilities	31	—	—	1,622	1,290
Net assets		202,479	280,056	378,532	248,272
Capital and reserves					
Share capital/paid-in capital	32	86,000	86,150	86,300	—
Reserves		17,831	57,713	108,493	248,272
Attributable to owners of the Company		103,831	143,863	194,793	248,272
Non-controlling interests		98,648	136,193	183,739	—
Total equity		202,479	280,056	378,532	248,272

STATEMENT OF FINANCIAL POSITION

The Company

	Notes	**As at 31 May 2019** *RMB'000*
Non-current asset		
Investment in a subsidiary	42	11,217
Current asset		
Deferred issue costs	21	3,261
		3,261
Current liabilities		
Accrued charges	29	3,645
Amount due to a subsidiary	22	6,225
		9,870
Net current liabilities		(6,609)
Net assets		4,608
Capital and reserve		
Share capital	32	—
Reserve	38	4,608
		4,608

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company								
	Share capital/ paid-in capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note a)	Translation reserve RMB'000	Retained profits (accumulated losses) RMB'000	Sub-total equity RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	36,200	—	—	1,126	—	(245)	37,081	163,815	200,896
Profit and total comprehensive income for the year	—	—	—	—	—	4,571	4,571	19,614	24,185
Transfer to statutory surplus reserve	—	—	—	783	—	(783)	—	—	—
Dividends paid	—	—	—	—	—	(2,260)	(2,260)	(20,342)	(22,602)
Arose from 2016 Jinan Mech Acquisition and 2016 Jinan Ma Steel Acquisition (as defined and details disclosed in note 1)	52,000	—	15,095	—	—	—	67,095	(67,095)	—
Change in the shareholding in Jinan Mech without losing control	(2,200)	—	(456)	—	—	—	(2,656)	2,656	—
At 31 December 2016	86,000	—	14,639	1,909	—	1,283	103,831	98,648	202,479
Profit and total comprehensive income for the year	—	—	—	—	—	39,837	39,837	37,740	77,577
Transfer to statutory surplus reserve	—	—	—	3,726	—	(3,726)	—	—	—
Change in the shareholding in Jinan Mech without losing control	150	—	45	—	—	—	195	(195)	—
At 31 December 2017	86,150	—	14,684	5,635	—	37,394	143,863	136,193	280,056
Adoption of HKFRS 9 *(note 2)*	—	—	—	—	—	(1,539)	(1,539)	(1,456)	(2,995)
At 1 January 2018, as restated	86,150	—	14,684	5,635	—	35,855	142,324	134,737	277,061
Profit and total comprehensive income for the year	—	—	—	—	—	52,146	52,146	49,325	101,471
Transfer to statutory surplus reserve	—	—	—	5,215	—	(5,215)	—	—	—
Change in the shareholding in Jinan Mech without losing control	150	—	173	—	—	—	323	(323)	—
At 31 December 2018	86,300	—	14,857	10,850	—	82,786	194,793	183,739	378,532
Profit for the period	—	—	—	—	—	19,930	19,930	12,331	32,261
Other comprehensive income for the period	—	—	—	—	229	—	229	(80)	149
Total comprehensive income for the period	—	—	—	—	229	19,930	20,159	12,251	32,410
Arising from Reorganisation (as defined in note 1) *(note 22)*	(86,300)	—	108,403	—	—	—	22,103	(184,773)	(162,670)
Transfer to statutory surplus reserve	—	—	—	2,756	—	(2,756)	—	—	—
Issue of shares on 18 April 2019 and acquiring the shareholding in Jinan Mech *(note 32)*	—	11,217	—	—	—	—	11,217	(11,217)	—
At 31 May 2019	—	11,217	123,260	13,606	229	99,960	248,272	—	248,272
At 1 January 2018, as restated	86,150	—	14,684	5,635	—	35,855	142,324	134,737	277,061
Profit and total comprehensive income for the period (unaudited)	—	—	—	—	—	16,071	16,071	15,214	31,285
Transfer to statutory surplus reserve (unaudited)	—	—	—	1,607	—	(1,607)	—	—	—
At 31 May 2018 (unaudited)	86,150	—	14,684	7,242	—	50,319	158,395	149,951	308,346

Notes:

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
OPERATING ACTIVITIES					
Profit before taxation	29,137	91,227	119,415	37,420	38,993
Adjustments for:					
Impairment losses on trade receivables and contract assets	1,547	2,769	92	338	479
Finance costs	1,159	14,957	14,464	5,864	5,251
Depreciation of property, plant and equipment	10,982	17,796	17,775	6,889	7,715
Losses on disposals of property, plant and equipment	899	736	1,870	—	18
Fair value change of foreign currency forward contracts	—	—	(643)	1,800	643
Fair value change of derivative financial instruments	—	—	179	—	(179)
Write-down of inventories	1,005	996	3,457	770	997
Fair value change on structured bank deposits	(655)	(284)	(267)	(110)	(833)
Interest income	(357)	(48)	(117)	(57)	(17)
Operating cash flows before movements in working capital	43,717	128,149	156,225	52,914	53,067
Decrease (increase) in inventories	14,144	(68,519)	475	(8,760)	(71,651)
Increase in trade receivables	(39,915)	(74,078)	(2,590)	(51,736)	(860)
(Increase) decrease in trade receivables backed by bills	(12,115)	(27,150)	(2,267)	16,091	31,018
(Increase) decrease in contract assets	(1,441)	(2,440)	(11,924)	(1,130)	4,619
(Increase) decrease in deposits, prepayments and other receivables	(1,262)	(2,207)	5,870	(19,563)	(13,678)
(Increase) decrease in amounts due from related parties	(30,196)	23,399	2,409	4,093	3,984
Increase (decrease) in trade and bills payables	11,510	49,486	(33,546)	(35,653)	(9,559)
(Decrease) increase in contract liabilities	(1,475)	1,336	11,189	5,115	(342)
Increase in other payables and accrued charges	3,572	3,740	5,605	3,892	4,865
Increase (decrease) in refund liabilities	—	6,345	9,436	1,543	(4,853)
Increase (decrease) in provisions	—	1,210	127	279	260
(Decrease) increase in amounts due to a related party	(7,639)	11,906	(15,192)	(6,561)	(11,559)
Cash (used in) generated from operations	(21,100)	51,177	125,817	(39,476)	(14,689)
Income tax paid	(2,986)	(11,794)	(14,655)	(6,882)	(6,468)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(24,086)	39,383	111,162	(46,358)	(21,157)

	Note	Year ended 31 December 2016 RMB'000	2017 RMB'000	2018 RMB'000	Five months ended 31 May 2018 RMB'000 (unaudited)	2019 RMB'000
INVESTING ACTIVITIES						
Purchases of property, plant and equipment		(14,665)	(8,810)	(24,731)	(5,828)	(17,625)
Deposits for plant and equipment		(114)	(705)	(4,221)	(4,221)	(3,525)
Proceeds from disposals of property, plant and equipment		—	102	—	—	—
Receipts from structured bank deposits		655	284	267	110	833
Interest received		357	48	117	57	17
Placement of pledged bank deposits		—	(12,039)	(3,284)	(468)	(3,247)
Withdrawal of pledged bank deposits		—	30	12,009	10,997	1,330
Placement of structured bank deposits		(267,850)	(91,800)	(233,450)	—	(94,300)
Withdrawal of structured bank deposits		320,250	88,800	151,250	4,000	166,000
Advance to an independent third party		(6,000)	—	—	—	—
Repayment from an independent third party		6,000	—	—	—	—
Acquisition of business	37	(91,423)	—	—	—	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(52,790)	(24,090)	(102,043)	4,647	49,483
FINANCING ACTIVITIES						
Issue costs paid		—	—	(1,508)	—	(914)
Borrowings raised		420,200	310,000	300,000	—	100,000
Repayment of borrowings		(120,200)	(310,000)	(300,000)	—	(130,000)
Repayment to related parties		(151,000)	—	—	—	—
Proceeds from capital injection from a shareholder		—	—	—	—	11,217
Consideration paid to non-controlling interests		—	—	—	—	(11,217)
Payment of lease liabilities		—	—	(68)	—	(343)
Dividend paid		(22,602)	—	—	—	—
Interest paid		(1,081)	(14,361)	(14,882)	(5,864)	(5,120)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		125,317	(14,361)	(16,458)	(5,864)	(36,377)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		48,441	932	(7,339)	(47,575)	(8,051)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		4,416	52,857	53,789	53,789	46,450
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash		52,857	53,789	46,450	6,214	38,399

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 1 February 2019. The immediate holding company is Ying Stone Holdings Limited ("Ying Stone"), which is incorporated in the British Virgin Islands (the "BVI") and entirely owned by Mr. Kong Linglei (孔令磊) ("Mr. Kong"). The addresses of the registered office and the principal place of business of the Company are disclosed in the section "Corporate Information" in the Prospectus.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the manufacturing of steel pipe products and the prefabricated pipe nipple products.

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which conform with HKFRSs issued by the HKICPA and the principle of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") issued by the HKICPA.

During the Track Record Period, the main operation activities of the Group were carried out by Jinan Mech and Jinan Magang Steel Pipes Manufacturing Company 濟南瑪鋼鋼管製造有限公司 ("Jinan Ma Steel"). These entities were established and operated in the PRC.

On 1 January 2016, Mr. Kong owned 28.04% shareholding of Jinan Mech and 10% equity interests of Jinan Ma Steel.

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

Although Mr. Kong owned less than 50% ownership in Jinan Mech and Jinan Ma Steel before the completion of 2016 Jinan Ma Steel Acquisition and 2016 Jinan Mech Acquisition, the directors of the Company assessed whether the Group has control over Jinan Mech and Jinan Ma Steel based on whether the Group has the practical ability to direct the relevant activities of Jinan Mech and Jinan Ma Steel unilaterally. The directors of the Company considered Mr. Kong exercises his control over Jinan Mech and Jinan Ma Steel after taking into consideration of the arrangements with Mr. Yin Yuanxiao (陰元曉), Mr. Qi Xiaoyu (亓曉玉) and Mr. Liu Yong (劉勇), three shareholders/equity holders of Jinan Mech and Jinan Ma Steel, which these three shareholders/equity holders agree to follow the decision of Mr. Kong in all shareholders'/equity holders' meetings. These three shareholders/equity holders then owned in aggregation 28.31% shareholding of Jinan Mech before 2016 Jinan Mech Acquisition and 59.21% equity interests of Jinan Ma Steel before 2016 Jinan Ma Steel Acquisition. As Jinan Mech and Jinan Ma Steel were under the common control of Mr. Kong, the financial information of Jinan Mech and Jinan Ma Steel has been prepared under the principles of merger accounting under AG 5 throughout the Track Record Period. Before acquiring the remaining shareholding in Jinan Mech on 6 May 2019, equity interest held by the other shareholders/equity holders (including Mr. Kong XC) in Jinan Mech and Jinan Ma Steel during the Track Record Period is presented as non-controlling interests in the Historical Financial Information.

Pursuant to the reorganisation as more fully explained in the paragraph under the sections headed "History, Reorganisation and Corporate Structure" in the Prospectus (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 6 May 2019. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation has always been under the control of Mr. Kong regardless of the actual date when the Company formally becomes the holding company of the Group, therefore, the Group is regarded as a continuing entity and the Historical Financial Information has been prepared as if the Company had always been the holding company of the Group throughout the Track Record Period.

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

The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 May 2019 are prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been existence at those dates, taking into account the respective dates of incorporation, where applicable.

No audited statutory financial statements of the Company have been prepared since its incorporation as it was incorporated in jurisdiction where there is no statutory audit requirements.

2. ADOPTION OF NEW AND REVISED HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the accounting policies which conform with HKFRSs issued by the HKICPA, which are effective for the Group's financial year beginning on 1 January 2019, including HKFRS 15 *Revenue from contracts with customers* and HKFRS 16 *Leases* ("HKFRS 16"), consistently throughout the Track Record Period except that the Group adopted HKFRS 9 "*Financial Instruments*" on 1 January 2018 and Hong Kong Accounting Standard ("HKAS") 39 *Financial Instruments: Recognition and measurement* before 1 January 2018. The accounting policies for financial instruments under HKFRS 9 are set out in note 3.

HKFRS 9 "*Financial Instruments*" and the related amendments

On 1 January 2018, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; 2) expected credit losses ("ECL") for financial assets; and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits, without restating the financial information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the lifetime ECL of trade receivables and contract assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Contract assets	Trade receivables	Deferred tax assets	Retained profits	Non-controlling interests
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Closing balance at 31 December 2017 — HKAS 39	7,102	165,954	1,247	37,394	136,193
Effect arising from initial application of HKFRS 9:					
Remeasurement					
Impairment under ECL model	(171)	(3,352)	528	(1,539)	(1,456)
Opening balance at 1 January 2018 — HKFRS 9	6,931	162,602	1,775	35,855	134,737

The Group applies simplified approach to measure ECL which uses a lifetime ECL for all trade receivables, contract assets, trade receivables backed by bills and trade nature amounts due from related parties. To measure ECL, trade receivables and contracts assets of aggregate amount for a customer with outstanding significant balances exceeding RMB10,000,000, receivables backed by bills and trade related amounts due from related parties have been assessed individually, the remaining trade receivables and contracts assets have been grouped based on shared credit risk characteristics. As at 1 January 2018, the impairment loss allowance on trade receivables of RMB3,352,000, impairment loss allowance on contract assets of RMB171,000 and deferred tax assets in respect of the impairment loss on trade receivables of RMB528,000 have been recognised.

Loss allowances for other financial assets at amortised cost mainly comprise of deposits and other receivables, pledged bank deposits and bank balances and cash, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

For pledged bank deposits and bank balances, the Group only transacts with reputable banks with high credit ratings assigned by international credit-rating agencies and considers the risk of default is regard as low and 12-month ECL is insignificant as at 1 January 2018.

For deposits and other receivables, the management of the Group makes individual assessment on the recoverability based on historical settlement records and past experience with available reasonable and supportive forward-looking information. Based on assessment by the management of the Group, the management of the Group considers the ECL for deposits and other receivables is insignificant as at 1 January 2018.

Classification and measurement of financial instruments

All financial assets and financial liabilities continue to be measured on the same bases as were previously measured under HKAS 39.

Impairment of financial assets and contract assets

As at 1 January 2018, the management of the Group reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed above.

New and amendments to HKFRSs and interpretations in issue but not yet effective

At the date of this report, the Group has not early applied the following new and revised HKFRSs which are not yet effective:

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

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
4 Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the Group's future consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "*Share-based payment*", leasing transactions that are within the scope of HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "*Inventories*" or value in use in HKAS 36 "*Impairment of assets*".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Company and to the non-controlling interest. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if the results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

Business combinations

Acquisitions of businesses not under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period.

Investment in a subsidiary

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same.

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good.

A contract asset represents the Group's right to consideration in exchange for goods that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

The Group's revenue primarily arising from the sales of pipe products during the Track Record Period, which is recognised at a point in time when the control of goods has transferred, i.e. when the goods have been delivered to customers.

Variable consideration

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

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers. The refund liabilities are usually paid annually.

Sale with a right of return

For a sale of products with a right of return, the Group recognises all of the following:

(a) revenue for the transferred products in the amount of consideration to which the Group expects to be entitled (therefore, revenue would not be recognised for the products expected to be returned);

(b) a refund liability; and

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

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs (sales commissions) as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortised to profit or loss within one year.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as other payables in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss on a systematic and rational basis in the period in which they become receivable.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;

- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production and administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment loss on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually, and when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (before the adoption of HKFRS 9 on 1 January 2018)

Financial assets are classified into financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 40(c).

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, trade receivables backed by bills, deposits and other receivables, pledged bank deposits, bank balances and cash and amounts due from related parties) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of loans and receivables (before the adoption of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on trade receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Classification and subsequent measurement of financial assets (upon adoption of HKFRS 9 on 1 January 2018 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on a specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon adoption of HKFRS 9 on 1 January 2018 in accordance with transitions in note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, contract assets, trade receivables backed by bills, deposits and other receivables, pledged bank deposits, bank balances and cash and amounts due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, contract assets, trade receivables backed by bills and trade related amounts due from related parties without significant financing component. Contract assets and trade receivables of aggregate amount for a customer with outstanding significant balances exceeding RMB10,000,000, receivables backed by bills and trade related amounts due from related parties have been assessed individually, the remaining contract assets and trade receivables are assessed collectively using a provision matrix grouped with internal credit rating. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for the trade receivables and the contract assets on the same basis.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when the instrument is more than 50 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer of the borrower;
- A breach of contract, such as a default or past due event;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- It is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, contract assets and trade nature amounts due from related parties where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities at amortised cost

Financial liabilities including trade and bills payable, other payables and accrued charges, borrowings and amount due to a related party are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Retirement benefits costs

Payments to defined contribution scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Leasing

The Group as lessee

At inception of a contract, the Group assesses whether a 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 *Leases* and HK(IFRIC) 4 *Determining whether an Arrangement contains a Lease* were not reassessed for whether there is a lease. Therefore, the definition of a lease under HKFRS 16 was applied only to contracts entered into or changed on or after 1 January 2016.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and 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, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability represent the fixed payments of the lease.

The lease liability is measured at amortised cost using the effective interest method.

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 lease liabilities separately in the consolidated statement of financial position.

The Group used the following practical expedients when applying HKFRS 16 to leases previously classified as operating leases under HKAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.

- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Taxation

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investment and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

4. KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Group's accounting policies, which are described in note 3, management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainties at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period.

Estimated impairment of trade receivables for trade receivables under HKAS 39

Impairment of trade receivables is estimated based on the evaluation of collectability and aging analysis of individual trade debts performed by the management. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

As at 31 December 2016 and 2017, the carrying amount of trade receivables is RMB94,645,000 net of allowance for doubtful debts of RMB3,569,000 and RMB165,954,000 net of allowance for doubtful debts of RMB6,142,000 respectively.

Provision of ECL for trade receivables and contract assets under HKFRS 9

The Group calculates ECL for the trade receivables and contract assets. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The individual assessment and provision matrix are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables and contract assets are disclosed in note 17.

5. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods provided by the Group to related companies/external customers, net of related taxes, for the Track Record Period.

The following is an analysis of the Group's revenue:

	Year ended 31 December			Five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Recognised at a point in time:					
Sales of pipe products:					
— Spiral Submerged Arc Welded steel pipes	189,048	249,737	292,183	100,309	74,798
— ERW steel pipes	144,617	267,819	350,410	138,778	135,452
— Customised steel pipes	60,399	114,816	131,589	47,034	70,467
— Standard prefabricated pipe nipples	52,896	293,555	379,267	149,366	104,579
— Design and supply assembled piping system	—	2,826	10,774	2,121	3,156
Sales of unused raw materials	5,323	9,416	50,616	7,220	22,962
	452,283	938,169	1,214,839	444,828	411,414

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

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

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

During the Track Record Period, all performance obligations for sales of goods are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations as at the end of each reporting period is not disclosed.

Segmental information

The Group's operation is solely derived from the production and sales of pipe products in the PRC and Vietnam during the Track Record Period. For the purpose of resources allocation and performance assessment, the chief operating decision maker ("CODM") (i.e. the chief executive officer) reviews the overall results and financial position of the Group as a whole, which are prepared based on same accounting policies set out in note 3. Accordingly, no operating segment is presented.

Geographical information

Information about the Group's revenue from external customers is presented based on the destination of goods in the sales orders/contracts. Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the geographical location of the assets.

	Revenue from external customers					Non-current assets As at			
	Year ended 31 December			Five months ended 31 May		31 December			31 May
	2016	2017	2018	2018	2019	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
PRC	364,907	576,818	655,546	215,358	230,919	210,008	200,889	212,607	220,054
The United States of America ("US")	3,932	138,559	247,510	92,642	71,246	—	—	—	—
Other countries in Asia (excluding PRC)	61,537	121,831	169,760	79,772	53,777	—	—	—	5,970
Other countries in America (excluding US)	13,162	68,974	101,215	41,100	34,335	—	—	—	—
Europe	1,401	17,836	13,803	4,819	5,907	—	—	—	—
Others	7,344	14,151	27,005	11,137	15,230	—	—	—	—
	452,283	938,169	1,214,839	444,828	411,414	210,008	200,889	212,607	226,024

Information about major customers

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

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Meide Group Co., Ltd. ("Meide") *(Note)*	107,422	132,112	78,124	36,785	12,370

Note: Mr. Kong owned 35.49% equity interests in Meide. He also obtained the control of Meide since 2017.

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Mr. Kong was appointed as director of the Company on 1 February 2019 and Guo Lei, Xu Jianjun and Yang Shufeng were appointed as executive directors of the Company on 6 May 2019. Liu Fengyuan, Ding Xiaodong and Ma Changcheng were appointed as independent non-executive directors of the Company on 19 November 2019. The emoluments paid or payable to the directors of the Company (including emoluments for services as director/employees of Group entities prior to becoming the directors of the Company) by entities comprising the Group during the Track Record Period as follows:

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Discretionary bonus *RMB'000* *(note 2)*	Contributions to retirement benefit schemes *RMB'000*	Total *RMB'000*
For the year ended 31 December 2016:					
Executive directors					
Mr. Kong	—	—	—	—	—
Guo Lei *(note 1)*	—	101	—	10	111
Xu Jianjun	—	538	—	55	593
Yang Shufeng	—	249	—	29	278
Total	—	888	—	94	982
For the year ended 31 December 2017:					
Executive directors					
Mr. Kong	—	—	—	—	—
Guo Lei *(note 1)*	—	449	420	66	935
Xu Jianjun	—	452	420	63	935
Yang Shufeng	—	274	—	38	312
Total	—	1,175	840	167	2,182
For the year ended 31 December 2018:					
Executive directors					
Mr. Kong	—	—	—	—	—
Guo Lei *(note 1)*	—	564	660	74	1,298
Xu Jianjun	—	559	113	69	741
Yang Shufeng	—	211	19	46	276
Total	—	1,334	792	189	2,315
Five months ended 31 May 2018					
Executive directors					
Mr. Kong (unaudited)	—	—	—	—	—
Guo Lei *(note 1)* (unaudited)	—	250	—	29	279
Xu Jianjun (unaudited)	—	230	20	27	277
Yang Shufeng (unaudited)	—	60	37	18	115
Total	—	540	57	74	671
Five months ended 31 May 2019					
Executive directors					
Mr. Kong	—	—	—	—	—
Guo Lei *(note 1)*	—	313	18	32	363
Xu Jianjun	—	230	76	30	336
Yang Shufeng	—	60	39	20	119
Total	—	603	133	82	818

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

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

The emoluments stated above were for their services in connection with the management of the affairs of the Company and the Group.

During the Track Record Period, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Track Record Period.

(b) Employees' emoluments

Two of the executive director of the Company were the five highest paid individual during the year ended 31 December 2016. Three of the executive director of the Company were the five highest paid individual for the years ended 31 December 2017 and 2018 and the five months ended 31 May 2018 and 2019. The emoluments of the remaining highest paid individuals during the Track Record Period, which were individually less than HK$1,000,000, were as follows:

	Year ended 31 December			**Five months ended 31 May**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	955	513	519	175	140
Discretionary bonus *(note)*	—	—	97	56	43
Contributions to retirement benefit schemes	88	84	92	36	40
	1,043	597	708	267	223

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

The number of the highest paid employees who are not directors nor the chief executive officer of the Company have their emoluments within the following band:

	Number of individuals				
	Year ended 31 December			**Five months ended 31 May**	
	2016	**2017**	**2018**	**2018** (unaudited)	**2019**
Nil to HK$1,000,000	3	2	2	2	2

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

7. OTHER INCOME/OTHER GAINS AND LOSSES

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other income					
Bank interest income	83	48	117	57	17
Interest income from a third party *(Note)*	274	—	—	—	—
Government grant	4	16	282	132	538
	361	64	399	189	555

Note: During the year ended 31 December 2016, borrowings were lent to an independent third party and carried fixed interest rates of 10.8% per annum.

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Other gains and losses					
Gain on sales of scrap materials	3,549	5,132	7,169	2,724	3,288
Fair value gains (losses) on financial assets at FVTPL					
— structured bank deposits	655	284	267	110	833
— foreign currency forward contracts *(note i)*	—	—	(11,735)	(1,754)	824
Fair value loss on derivative financial instruments *(note ii)*	—	—	(703)	—	526
Losses on disposals of property, plant and equipment	(899)	(736)	(1,870)	—	(18)
Net exchange gains (losses)	1,533	(5,971)	6,094	(2,300)	353
Others	963	347	1,868	(225)	268
	5,801	(944)	1,090	(1,445)	6,074

Notes:

i. Net gains (losses) on US$ to RMB foreign currency forward contracts represented realised losses of RMB12,378,000, realised gains of RMB46,000 (unaudited) and realised gains of RMB824,000 and unrealised gains of RMB643,000, unrealised losses of RMB1,800,000 (unaudited) and nil on changes in fair value of foreign currency forward contracts during the year ended 31 December 2018 and the five months ended 31 May 2018 and 2019, respectively.

ii. Amount represented net gains (loss) on commodity derivative contracts represented realised losses of RMB524,000, realised gains of RMB526,000 and unrealised losses of RMB179,000 and nil arising on changes in fair value of commodity derivative contracts during the year ended 31 December 2018 and the five months ended 31 May 2019, respectively.

8. IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

	Year ended 31 December			Five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Impairment losses recognised on:					
— trade receivables	1,547	2,769	11	276	277
— contract assets	—	—	81	62	202
	1,547	2,769	92	338	479

9. FINANCE COSTS

	Year ended 31 December			Five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance costs represent interest on:					
— bank borrowings	—	—	124	—	963
— other borrowings from a related party	1,159	14,957	14,331	5,864	4,245
— lease liabilities	—	—	9	—	43
	1,159	14,957	14,464	5,864	5,251

10. PROFIT BEFORE TAXATION

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation has been arrived at after charging (crediting):					
Auditor's remuneration	192	9	29	9	7
Directors' emoluments *(note 6)*	982	2,182	2,315	671	818
Other staff costs:					
— Salaries and other benefits	14,899	38,727	49,750	23,178	23,048
— Contributions to retirement benefit schemes	2,874	7,901	9,616	3,926	4,548
Less: capitalised in inventories	(9,835)	(30,968)	(36,587)	(14,767)	(17,387)
Total staff costs	7,938	15,660	22,779	12,337	10,209
Depreciation of property, plant and equipment	10,982	17,796	17,775	6,889	7,715
Less: capitalised in inventories	(8,364)	(15,429)	(15,644)	(5,523)	(5,964)
Total depreciation	2,618	2,367	2,131	1,366	1,751
Cost of inventories sold	372,396	723,420	935,687	348,328	317,770
Write-down of inventories (included in cost of inventories sold)	1,005	996	3,457	770	997

11. TAXATION CHARGE

	Year ended 31 December			Five months ended 31 May	
	2016	2017	2018	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
PRC Enterprise Income Tax ("EIT"):					
— Current year/period	2,567	12,219	17,742	6,075	6,314
— Under (over) provisions in prior years	172	(173)	226	226	(11)
	2,739	12,046	17,968	6,301	6,303
Deferred tax charge (credit) *(note 15)*	2,213	1,604	(24)	(166)	429
Taxation charge	4,952	13,650	17,944	6,135	6,732

Under the Law of the PRC on Enterprise Income Tax (the "EIT") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

Jinan Mech was recognised as a High and New Technology Enterprises during the year 2017 and the applicable tax rate is 15% from 1 January 2017 to 31 December 2019.

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

No provision for income tax has been made for Tube Industry Investment Limited in Hong Kong as there was no estimated assessable profit during the Track Record Period.

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

Under the tax law in Vietnam, the tax rate of Viet Nam Piping Industries Company Limited is 20%. Viet Nam Piping Industries Company Limited has been granted to enjoy 2-years exemption of income tax followed by 4-year 50% reduction of income tax from the first profit making year.

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

	Year ended 31 December			**Five months ended 31 May**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Profit before taxation	29,137	91,227	119,415	37,420	38,993
Taxation at PRC EIT rate of 25%	7,284	22,807	29,854	9,355	9,748
Tax effect of expenses not deductible for tax purposes	28	1,021	1,870	614	2,232
Decrease in opening deferred tax assets resulting from an decrease in applicable tax rate	—	1,027	—	—	—
Tax deduction on research and development expenses	(848)	(2,554)	(2,664)	(587)	(165)
Under (over) provisions in prior years	172	(173)	226	226	(11)
Effect of different tax rates of subsidiaries operating in other jurisdictions	—	—	—	—	(99)
Income tax at concessionary rate	(1,684)	(8,478)	(11,342)	(3,473)	(4,973)
Taxation charge for the year/period	4,952	13,650	17,944	6,135	6,732

12. DIVIDEND

During the year ended 31 December 2016, Jinan Ma Steel distributed dividends of RMB22,602,000 to the then equity holders.

The rate of dividend and the number of shares, ranking for the dividend are not presented, as such information is not meaningful having regard to the purpose of this report.

Other than the above, no dividend was paid or declared by the other companies comprising the Group during the Track Record Period.

No dividends was paid or declared by the Company since its incorporation.

13. EARNINGS PER SHARE

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

	Year ended 31 December			**Five months ended 31 May**	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Earnings:					
Earnings for the purpose of basic earnings per share (profit for the year/period attributable to owners of the Company)	4,571	39,837	52,146	16,071	19,930
Number of shares:					
Number of ordinary shares for the purpose of calculating basic earnings per share	77,876,000	172,052,000	172,376,000	172,300,000	220,038,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and the Capitalisation Issue (as defined in note 43) has been effective on 1 January 2016.

No diluted earnings per share was presented as there were no potential ordinary shares in issue during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Right-of-use assets	Construction in progress	Buildings	Electronic equipment	Machinery	Office and other equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2016	49,062	25,000	64,947	1,337	56,945	2,242	671	200,204
Additions	—	—	974	231	17,893	6	60	19,164
Disposals	—	—	(56)	(3)	(2,042)	(82)	—	(2,183)
Acquisition of business *(note 37)*	—	—	14,373	—	20,039	—	—	34,412
Transfer	—	(25,000)	20,336	—	4,664	—	—	—
At 31 December 2016	49,062	—	100,574	1,565	97,499	2,166	731	251,597
Additions	—	2,473	1,053	51	5,155	192	—	8,924
Disposals	—	—	(25)	—	(849)	—	(111)	(985)
At 31 December 2017	49,062	2,473	101,602	1,616	101,805	2,358	620	259,536
Additions	3,839	12,995	—	1,135	5,727	4,075	76	27,847
Disposals	—	—	—	—	(2,909)	(15)	—	(2,924)
At 31 December 2018	52,901	15,468	101,602	2,751	104,623	6,418	696	284,459
Additions	—	12,182	—	—	9,272	392	—	21,846
Disposals	—	—	—	(143)	(111)	(16)	—	(270)
At 31 May 2019	52,901	27,650	101,602	2,608	113,784	6,794	696	306,035
ACCUMULATED DEPRECIATION								
At 1 January 2016	2,034	—	8,855	362	19,644	903	207	32,005
Provided for the year	981	—	3,713	538	5,349	262	139	10,982
Eliminated on disposals	—	—	(46)	(1)	(1,188)	(49)	—	(1,284)
At 31 December 2016	3,015	—	12,522	899	23,805	1,116	346	41,703
Provided for the year	981	—	5,308	506	10,496	369	136	17,796
Eliminated on disposals	—	—	(15)	—	(75)	—	(57)	(147)
At 31 December 2017	3,996	—	17,815	1,405	34,226	1,485	425	59,352
Provided for the year	1,064	—	5,391	357	10,437	395	131	17,775
Eliminated on disposals	—	—	—	—	(1,043)	(11)	—	(1,054)
At 31 December 2018	5,060	—	23,206	1,762	43,620	1,869	556	76,073
Provided for the period	756	—	2,244	172	4,184	326	33	7,715
Eliminated on disposals	—	—	—	(131)	(106)	(15)	—	(252)
At 31 May 2019	5,816	—	25,450	1,803	47,698	2,180	589	83,536
CARRYING AMOUNTS								
At 31 December 2016	46,047	—	88,052	666	73,694	1,050	385	209,894
At 31 December 2017	45,066	2,473	83,787	211	67,579	873	195	200,184
At 31 December 2018	47,841	15,468	78,396	989	61,003	4,549	140	208,386
At 31 May 2019	47,085	27,650	76,152	805	66,086	4,614	107	222,499

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual values, at the following rates per annum:

Buildings	3.8% to 9.5%
Electronic equipment	19% to 31.7%
Machinery	6.3% to 19%
Office and other equipment	9.5% to 19%
Motor vehicles	9.5% to 19%
Right-of-use assets	Over lease terms

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

The legal titles of the buildings with aggregate carrying value of RMB15,922,000, RMB14,404,000, RMB13,629,000 and nil, respectively, as at 31 December 2016, 2017 and 2018 and 31 May 2019 have not been granted by the relevant government authorities and the relevant titles are still under application. In the opinion of the management of the Group, taking into account of the PRC lawyer's legal opinion, all the risks and rewards of ownership of the buildings have been transferred to the Group.

As at 31 December 2018 and 31 May 2019, the Group has pledged buildings with the carrying amount of RMB37,450,000 and RMB49,887,000 to secure general banking facilities granted to the Group respectively.

The carrying amounts of right-of-use assets at the end of each reporting period and the depreciation by classes of right-of-use assets are set out as below:

	As at			
		31 December		31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amounts				
Land	46,047	45,066	45,496	45,075
Plant	—	—	2,345	2,010
	46,047	45,066	47,841	47,085
Depreciation recognised in profit or loss				
Land	981	981	998	421
Plant	—	—	66	335
	981	981	1,064	756

As at 31 December 2018 and 31 May 2019, the Group has pledged rights-of-use assets with the carrying amount of RMB43,351,000 and RMB44,354,000 to secure general banking facilities granted to the Group respectively.

15. DEFERRED TAX

The followings are the major deferred tax assets recognised by the Group and the movement thereon, during the Track Record Period.

	Impairment losses of trade receivables and contract assets	Tax losses	Impairment losses of inventories	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	511	4,553	—	5,064
Credit (charge) to profit or loss	225	(2,689)	251	(2,213)
At 31 December 2016	736	1,864	251	2,851
Credit (charge) to profit or loss	392	(1,118)	149	(577)
Effect of change in tax rate	(180)	(746)	(101)	(1,027)
At 31 December 2017	948	—	299	1,247
Adjustments *(note 2)*	528	—	—	528
At 1 January 2018 (restated)	1,476	—	299	1,775
(Charge) credit to profit or loss	(495)	—	519	24
At 31 December 2018	981	—	818	1,799
(Charge) credit to profit or loss	71	—	(500)	(429)
At 31 May 2019	1,052	—	318	1,370

As at 31 December 2016, the Group has unused tax losses of RMB7.5 million available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1.9 million of such losses. Such losses will expire in 2022.

At the end of each reporting period, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was approximately RMB1.3 million, RMB37 million, RMB83 million and RMB100 million as at 31 December 2016, 2017 and 2018 and 31 May 2019, respectively. No deferred tax liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

16. INVENTORIES

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	61,725	85,123	72,464	79,558
Work in progress	8,495	42,614	50,925	63,132
Finished goods	44,016	54,022	54,438	105,791
	114,236	181,759	177,827	248,481

17. TRADE RECEIVABLES

	1 January 2016	As at 31 December 2016	2017	2018	31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	58,299	98,214	172,096	171,464	172,324
Less: allowance of impairment loss	(2,022)	(3,569)	(6,142)	(6,283)	(6,560)
Total trade receivables	56,277	94,645	165,954	165,181	165,764

The Group allows credit period of 0 to 180 days to its trade customers. The following is an ageing analysis of trade receivables, net of allowance for impairment loss, presented based on the invoice date at the end of each reporting period.

	As at 31 December 2016	2017	2018	31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	51,309	113,221	108,918	109,073
61–180 days	23,770	44,691	50,498	46,279
181 days–1 year	19,445	3,394	995	7,653
Over 1 year	121	4,648	4,770	2,759
	94,645	165,954	165,181	165,764

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly.

The Group did not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired presented based on due date:

	As at 31 December 2016	2017
	RMB'000	*RMB'000*
0–50 days	13,487	11,580
51–90 days	3,477	1,332
91–180 days	17,468	961
Over 180 days	1,923	9,941
	36,355	23,814

Before the initial application of HKFRS 9 on 1 January 2018, in determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or there was no historical default of payments by the respective customers. The management of the Group believes that no further impairment is required.

Movement in the allowance for impairment loss is as follows:

	As at 31 December 2016	2017
	RMB'000	*RMB'000*
Balance at the beginning of the year	2,022	3,569
Impairment losses recognised	1,547	2,769
Amounts written off as uncollectible	—	(196)
Balance at the end of the year	3,569	6,142

Upon the initial application of HKFRS 9 on 1 January 2018, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Apart of debtors with credit impaired and customers with outstanding significant trade receivables exceeding RMB10,000,000 and relevant contract assets, the Group determines the ECL on these items using a provision matrix grouped into the following categories with reference to past default experience for recurring customers and current past due exposure for new customers.

Internal credit rating	Description	Trade receivables/contract assets
Group A	The counterparty has a low risk of default based on historical repayment records and does not have any past-due amounts	Lifetime ECL — not credit-impaired
Group B	The counterparty usually settles within 50 days after due dates	Lifetime ECL — not credit-impaired
Group C	There have been significant increases in credit risk since initial recognition through information developed internally or external resources or the counterparty delays its payment after 50 days after due dates	Lifetime ECL — not credit-impaired
Group D	There is evidence indicating the asset is credit-impaired	Lifetime ECL — credit-impaired
Group E	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off

Debtors with credit-impaired trade receivables with gross carrying amounts of RMB1,256,000 and RMB1,256,000, customers with outstanding significant trade receivables exceeding RMB10,000,000 with gross carrying amounts of RMB44,214,000 and RMB53,529,000, and relevant contract assets with gross carrying amounts of RMB7,210,000 and RMB2,500,000, respectively, as at 31 December 2018 and 31 Mary 2019 were assessed individually.

The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 and 31 May 2019 within lifetime ECL (not credit impaired).

		As at			
		31 December 2018		31 May 2019	
Internal credit rating	**Average loss rate**	**Gross carrying amounts of trade receivables**	**Gross carrying amounts of contract assets**	**Gross carrying amounts of trade receivables**	**Gross carrying amounts of contract assets**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Group A	0.50%	83,057	10,691	59,874	7,028
Group B	2.00%	15,752	44	30,099	2,502
Group C	15.00%	27,185	1,081	27,566	2,377
		125,994	11,816	117,539	11,907

The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The contract assets have the same risk characteristics as the trade receivables for the same type of contracts would apply the same internal credit rating and loss rate. The grouping is regularly reviewed by management of the Group to ensure relevant information about specific debtors and contract assets is updated.

As at 31 December 2018 and 31 May 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB22,384,000 and RMB31,687,000 which are past due as at the reporting date respectively. Out of the past due balances, RMB15,380,000 and RMB14,845,000 has been past due 50 days or more and is not considered impaired respectively. With reference to the historical records, past experience and also available reasonable and supportive forward-looking information to those customers, the management of the Group does not consider these receivables as credit impaired as these customers have a good business relationship with the Group and recurring overdue records of these customers with satisfactory settlement history.

Movement in the allowance for impairment loss of trade receivables and contract assets:

	Trade receivables under lifetime ECL (not credit impaired)	Trade receivables under lifetime ECL (credit impaired)	Contract assets under lifetime ECL (not credit impaired)
	RMB'000	*RMB'000*	*RMB'000*
As at 31 December 2017 under HKAS 39	—	6,142	—
Adoption of HKFRS 9 *(note 2)*	3,352	—	171
As at 1 January 2018	3,352	6,142	171
Changes due to financial instruments recognised as at 1 January:			
— Impairment reversed	(2,511)	(1,664)	(91)
— Amounts written off as uncollectible	—	(3,222)	—
New financial assets originated	4,186	—	172
As at 31 December 2018	5,027	1,256	252
— Impairment recognised	3,564	—	303
— Impairment reversed	(3,287)	—	(101)
As at 31 May 2019	5,304	1,256	454

18. TRADE RECEIVABLES BACKED BY BILLS

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables backed by bills	20,753	47,903	50,170	19,152

For customers who used bank bills to settle their trade receivables upon the expiry of the initial credit period, the ageing analysis of trade receivables backed by bills at the end of each reporting period was based on the date of the Group's receipt of the bills from the customers.

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–180 days	20,753	47,903	46,020	18,652
181 days–1 years	—	—	4,150	500
	20,753	47,903	50,170	19,152

As at 31 December 2018 the Group has pledged trade receivables backed by bills amounted to RMB2,000,000 to secure general banking facilities granted to the Group.

Impairment assessment on trade receivables backed by bills subject to ECL model

Upon the application of HKFRS 9 on 1 January 2018, the Group assessed the trade receivables backed by bills on lifetime ECL basis. The management of the Group believes that those bills are issued by the banks with high credit ratings assigned by international credit-rating agencies and the Group considers that the risk of default over trade receivables backed by bills is regard as low and lifetime ECL is insignificant as at 1 January 2018, 31 December 2018 and 31 May 2019.

19. TRANSFERS OF FINANCIAL ASSETS

The following were the trade receivables backed by bills as at 31 December 2016, 2017 and 2018 and 31 May 2019 that were transferred to suppliers by endorsing these trade receivables backed by bills on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these trade receivables backed by bills, it continues to recognise the full carrying amount of the trade receivables backed by bills and the payables to suppliers. These financial assets are carried at amortised cost in the Group's consolidated statements of financial position.

	As at			
		31 December		31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	9,900	41,951	29,054	13,616
Carrying amount of associated liabilities	(9,900)	(41,951)	(29,054)	(13,616)
Net position	—	—	—	—

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

20. CONTRACT ASSETS

	As at				
	1 January		**31 December**		**31 May**
	2016	**2016**	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Retention receivables on sales of pipe products	3,221	4,662	7,102	19,026	14,407
Less: allowance for impairment loss	—	—	—	(252)	(454)
	3,221	4,662	7,102	18,774	13,953

The contract assets primarily relate to the Group's right to consideration for work completed and not billed under the relevant contracts, and their rights are conditioned on the factors other than passage of time. The contract assets are transferred to trade receivables when the such rights become unconditional other than passage of time.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

The Group typically agrees to a retention period ranging from 6 to 24 months for 5% or 10% of the contract value with certain customers in accordance with the terms specified in the relevant contracts.

The retention receivables, net of allowance for impairment loss to be settled, based on the completion of defects liability period, at the end of each reporting period as follows:

	As at			
	31 December			31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	4,194	6,204	15,069	10,826
Over one year	468	898	3,705	3,127
	4,662	7,102	18,774	13,953

Details of the impairment assessment on contract assets subject to ECL model upon application of HKFRS 9 on 1 January 2018 disclosed in note 17.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	The Group				The Company
	As at				
	31 December			31 May	31 May
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Advance payment for materials	17,988	33,867	35,688	41,523	—
Other tax recoverable	22,409	7,336	852	6,150	—
Prepayments	123	2,426	1,544	2,459	—
Deposits paid to suppliers	2,132	272	656	1,897	—
Deferred issue costs	—	—	1,508	3,261	3,261
Other receivables	225	1,183	474	863	—
	42,877	45,084	40,722	56,153	3,261

Impairment assessment on deposits and other receivables subject to ECL model

Upon the application of HKFRS 9 on 1 January 2018, the management of the Group measures the loss allowance equal to 12-month ECL on deposits and other receivables and makes periodic individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience and also available reasonable and supportive forward-looking information starting from 1 January 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. ECL on deposits and other receivables is insignificant at 1 January 2018, 31 December 2018 and 31 May 2019 as the exposure of deposits and other receivables is insignificant.

22. AMOUNTS DUE FROM/TO RELATED PARTIES/SHAREHOLDERS/A SUBSIDIARY

The Group

Amounts due from related parties

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

	As at				Maximum amount outstanding year/period ended			
	31 December			31 May	31 December			31 May
	2016	2017	2018	2019	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Meide	30,200	6,801	2,920	—	31,485	30,200	14,820	5,990
Linyi Meide Gengchen Metal Material Co., Ltd. 臨沂玫德庚辰金屬材料有限公司 ("Linyi Meide Gengchen") *(note)*	—	—	717	286	—	—	4,812	717
Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 ("Linyi Meide") *(note)*	—	—	695	122	—	—	1,357	1,377
Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 ("Meiyuan Renewable") *(note)*	—	—	60	—	—	—	60	60
	30,200	6,801	4,392	408				

(note) Subsidiaries of Meide.

The Group allows credit period of 60 days to these related parties. The following is an ageing analysis of the trade nature amounts due from related parties based on the invoice date at the end of each reporting period.

	As at			
	31 December			31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	30,200	6,801	4,392	408

There is no overdue of amounts due from related parties as at 31 December 2016, 2017 and 2018 and 31 May 2019. The Group did not hold any collateral over these balances.

Impairment assessment on amounts due from related parties subject to ECL model

Upon the application of HKFRS 9 on 1 January 2018, the Group assessed the amounts due from related parties on simplified ECL basis. The management of the Group considers the risk of default by counterparty is insignificant based on the exposure of amounts due from related parties at the end of the reporting period, their understanding on the financial position, continuous settlement record of the counterparty and forward-looking information (such as current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the steel industry) that is available without undue cost or effort and thus the ECL on the balance is insignificant.

Amounts due to a related party

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

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Meide	14,845	26,751	11,559	—

The credit period on purchases of goods is 60 days. The following is an ageing analysis of amount due to a related party presented based on the invoice date at the end of each reporting period:

	As at 31 December			As at 31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–60 days	14,845	26,751	1,237	—
61–180 days	—	—	—	—
181–360 days	—	—	—	—
Over 360 days	—	—	10,322	—
	14,845	26,751	11,559	—

Amounts due to shareholders/former shareholders

Name	As at 31 December 2016	2017	2018	As at 31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Kong	—	—	—	86,000
Tong Chuang Sheng De Investment and Management Partnership	—	—	—	42,370
Tong Chuang Shun De Investment and Management Partnership	—	—	—	9,970
Tong Chuang Chang De Investment and Management Partnership	—	—	—	6,300
Tong Chuang Xing De Investment and Management Partnership	—	—	—	18,030
	—	—	—	162,670

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

The amounts were non-trade nature, unsecured, interest-free and repayable on demand. The amounts were fully settled by Tube Industry Investment Limited through borrowing a loan amounting to approximately RMB162.7 million from some of the shareholders of the Company including Ying Stone, Tong Chuang Sheng De Limited, Tong Chuang Shun De Limited, Tong Chuan Xing De Limited and Tong Chuang Chang De Limited. The loan was unsecured and interest free, and was fully settled by the Tube Industry Investments Limited by allotting and issuing 10,000 ordinary shares to Guan Dao Investments Limited on 16 October 2019.

The Company

Amount due to a subsidiary is non-trade nature, unsecured, interest-free and repayable on demand.

23. FINANCIAL ASSETS AT FVTPL

	As at			
	31 December			31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Structured bank deposits *(Note i)*	1,000	4,000	86,200	14,500
Foreign currency forward contracts *(Note ii)*	—	—	643	—
	1,000	4,000	86,843	14,500

Notes:

(i) As at 31 December 2016, 2017 and 2018 and 31 May 2019 the structured bank deposits are placed with banks in the PRC and are short-term investments with no predetermined or guaranteed return and are not principal protected. The return of these deposits are determined by reference to the market price of underlying financial instruments, including listed shares, bonds, debentures and other financial assets. The deposits could be withdrawn at the Group's discretion and are subject to early termination option of the issuing banks at the price of the principal outstanding plus the return of underlying portfolio up to the date of withdrawal/early termination.

The structured bank deposits are designated as FVTPL at initial recognition under HKAS 39. Upon application of HKFRS 9, the structured bank deposits are reclassified to financial assets at FVTPL because their contractual cash flows do not represent solely the payments of principal and interest on the principal amount outstanding.

(ii) The Group entered into US$ to RMB net-settled foreign currency forward contracts with banks in the PRC in order to manage the Group's currency risk. The notional principal amounts are US$9,500,000 in aggregate. The future rate for conversion of US$ to RMB is ranged from 6.8710 to 6.9507. The duration of these foreign currency forward contracts was ranged from one month to four months. These contracts are measured at fair value at the end of each reporting period.

24. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposits *(note i)*	—	12,009	3,284	5,201
Bank balances and cash *(note ii)*	52,857	53,789	46,450	38,399
	52,857	65,798	49,734	43,600

Notes:

(i) Pledged bank deposits represented bank deposits pledged to banks to secure short-term banking facilities granted to the Group. The pledged deposits carried interest at prevailing market rate of an average interest rate at 0.3%, 0.3%, 0.3% and 0.3% per annum, respectively, as at 31 December 2016, 2017 and 2018 and 31 May 2019.

(ii) Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturities of three months or less. Short-term bank deposits are made for various periods ranging from 1 to 3 months depending on the immediate cash requirements of the Group. The bank balances and cash carried interest at prevailing market rate of an average interest rate at 0.3%, 0.3%, 0.3% and 0.3% per annum, respectively, as at 31 December 2016, 2017 and 2018 and 31 May 2019.

Upon the application of HKFRS 9 on 1 January 2018, the Group assessed the pledged bank deposits and bank balances on 12-month ECL basis. The Group only transacts with reputable banks with high credit ratings assigned by international credit-rating agencies and the management of the Group considers the credit risk is limited and thus the ECL is insignificant.

25. TRADE AND BILLS PAYABLES

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	35,630	57,020	51,570	41,862
Bills payables	—	28,096	—	—
Trade and bills payables	35,630	85,116	51,570	41,862

The average credit period on purchases of goods is 30 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of each reporting period:

	As at 31 December 2016	2017	2018	31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–30 days	21,677	33,291	24,120	21,266
31–60 days	2,339	3,289	7,755	7,781
61–120 days	1,070	17,279	7,720	6,859
121–180 days	693	1,320	5,398	2,356
181–360 days	7,062	840	5,346	2,008
Over 360 days	2,789	1,001	1,231	1,592
	35,630	57,020	51,570	41,862

The following is an ageing analysis of bill payables based on the bills issuance date at the end of each reporting period:

	As at 31 December 2016	2017	2018	31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0–180 days	—	28,096	—	—

26. CONTRACT LIABILITIES

The amounts consist of advance payments from customers for goods. The amounts of contract liabilities as at 1 January 2016, 31 December 2016, 2017 and 2018 which are RMB5,352,000, RMB3,877,000, RMB5,213,000 and RMB16,402,000 were recognised as revenue during the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019 respectively.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2016	2017	2018	31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Commodity derivative contracts	—	—	179	—

Note: As at 31 December 2018 the commodity derivative contracts were entered into by the Group through Shanghai Futures Exchange for the purpose of reducing its exposure to commodity price risk. These commodity derivative contracts were not accounted for under hedge accounting.

Major terms of the commodity derivative contracts outstanding at the end of the reporting period are set out below:

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

28. REFUND LIABILITIES

	As at 31 December			**31 May**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Arising from retrospective volume rebates to customers	—	6,345	15,781	10,928

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

29. OTHER PAYABLES AND ACCRUED CHARGES

	The Group				**The Company**
	As at				
	31 December			**31 May**	**31 May**
	2016	**2017**	**2018**	**2019**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Staff costs payable	3,835	5,610	4,840	5,518	—
Other tax payable	1,699	2,751	4,969	2,597	—
Transportation cost payable	398	1,126	4,792	5,631	—
Deposits received from suppliers	3,332	3,407	1,079	1,288	—
Guarantee receipts from staff on trade receivables *(note)*	4,151	4,843	5,526	5,863	—
Government grant received	—	—	1,247	1,237	—
Accrued listing and issue costs	—	—	—	839	839
Accrued charges	3,236	1,943	3,111	8,391	2,806
Agency fee payable	—	711	432	336	—
	16,651	20,391	25,996	31,700	3,645

Note: The amounts received by the Group represented guarantee on certain trade receivables provided by relevant sales staff of the Group. Once the trade receivables are considered non-recoverable, the related guarantee receipts from sales staff would not be payable to sales staff accordingly.

30. BORROWINGS

	As at			
	31 December			31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Secured bank borrowings	—	—	30,025	—
Unsecured bank borrowings	—	—	—	100,124
Unsecured other borrowings	300,078	300,674	270,222	170,211
	300,078	300,674	300,247	270,335
Carrying amounts of borrowings:				
— repayable within one year	300,078	300,674	300,247	270,335

The other borrowings from Meide through a financial institution which carried fixed interest rates ranging from 4.65%, 4.65% to 4.80%, 4.35% to 4.80% and 4.35% to 4.65% per annum during the Track Record Period. Mr. Kong owned 35.49% equity interests in Meide. He also obtained the control of Meide since 2017. The secured bank borrowings carried variable interest rate at benchmark lending rate of the PRC plus 0.45%, approximately 4.80% per annum, as at 31 December 2018. The unsecured bank borrowings carried variable interest rate at benchmark lending rate of the PRC plus 0.04%, approximately 4.39% per annum as at 31 May 2019.

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

31. LEASE LIABILITIES

	As at			
	31 December			31 May
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current	—	—	730	762
Non-current	—	—	1,622	1,290
	—	—	2,352	2,052

	As at 31 December 2016	2017	2018	As at 31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Minimum lease payment due:				
— within one year	—	—	824	841
— more than one year but not exceeding two years	—	—	865	882
— more than two years but not exceeding five years	—	—	830	453
	—	—	2,519	2,176
Less: future finance charge	—	—	(167)	(124)
Present value of lease liabilities	—	—	2,352	2,052

	As at 31 December 2016	2017	2018	As at 31 May 2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Present value of lease liabilities:				
— within one year	—	—	730	762
— more than one year but not exceeding two years	—	—	808	840
— more than two years but not exceeding five years	—	—	814	450
	—	—	2,352	2,052

The Group leased a property to operate its factory and the lease liabilities were measured at the present value of the lease payments that are not yet paid.

Lease liabilities of the Group were measured at the present value of the lease payments that are not yet paid using its incremental borrowing rate at 1 December 2018. The rate applied is 4.8%.

Leases are negotiated and fixed for term of three years.

The total cash outflows for leases including the fixed payments of lease for the year ended 31 December 2018 and five months ended 31 May 2019 were RMB68,000 and RMB343,000 respectively.

32. SHARE CAPITAL/PAID-IN CAPITAL

The share capital/paid-in capital as at 1 January 2016 represented the aggregated share capital of Jinan Mech and paid-in capital of Jinan Ma Steel attributable to owners of the Company. As at 31 December 2016, 2017 and 2018, the share capital represented the share capital of Jinan Mech attributable to owners of the Company.

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

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

	Number of shares	**Amount**		**Equivalent amount to**
		US$	*US$'000*	*RMB'000*
Ordinary Shares of US$0.0001 each				
Authorised:				
At 1 February 2019 (date of incorporation) and 31 May 2019	500,000,000	50,000	50	335
Issued and fully paid				
At 1 February 2019 (date of incorporation) *(note i)*	16,267	2	—	—
Issue of shares on 18 April 2019 *(note ii)*	503	—	—	—
At 31 May 2019	16,770	2	—	—

Notes:

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

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

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

Amount of USD0.0503 (equivalent to RMB nil) was recorded in share capital, which represented 2.999% of equity interest of the Company and the remaining amount of RMB11,217,000 was recorded in share premium.

33. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of a state-managed retirement benefit scheme operated by the local government. The Group is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The contributions to the retirement benefits scheme of the Group during the Track Record Period are disclosed in notes 6 and 10, respectively.

34. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following significant transactions with its related parties during the Track Record Period:

Name of related company	**Nature of transactions**	**Year ended 31 December**			**Five months ended 31 May**	
		2016	**2017**	**2018**	**2018**	**2019**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(unaudited)	
Meide	Sales of pipe products	107,422	132,112	78,124	36,785	12,370
	Sales of scrap materials	8,806	13,461	13,251	5,590	5,305
	Sales of property, plant and equipment	—	165	—	—	—
	Purchase of inventories	—	33,073	1,237	630	237
	Acquisition of business	91,423	—	—	—	—
	Interest expense	1,159	14,957	14,331	5,864	4,245
Linyi Meide Gengchen	Sales of pipe products	—	—	14,121	41	224
Linyi Meide	Sales of pipe products	—	—	766	1	1,247
Meiyuan Renewable	Sales of pipe products	—	—	52	—	46

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

Compensation of key management personnel

The remuneration of directors of the Company and other members of key management during the years ended 31 December 2016, 2017 and 2018 and five months ended 31 May 2019 were as follows:

	Year ended 31 December			Five months ended 31 May	
	2016	**2017**	**2018**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Salaries and other benefits	1,408	2,109	2,226	800	893
Discretionary bonus	—	840	888	200	266
Contributions to retirement benefit schemes	153	299	366	139	174
	1,561	3,248	3,480	1,139	1,333

35. PLEDGE OF ASSETS

At the end of each reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group.

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pledged bank deposits	—	12,009	3,284	5,201
Property, plant and equipment	—	—	37,450	49,887
Right-of-use assets	—	—	43,351	44,354
Trade receivables backed by bills	—	—	2,000	—
	—	12,009	86,085	99,442

36. CAPITAL COMMITMENTS

	As at 31 December			As at 31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capital expenditure contracted for but not provided in the Historical Financial Information in respect of:				
— acquisition of property, plant and equipment	226	598	3,823	7,537

37. ACQUISITION OF BUSINESS

In November 2016, Jinan Mech and Jinan Ma Steel entered into several sale and purchase agreements with Meide to acquire business of manufacturing and sales of standard prefabricated pipe nipples at cash consideration of RMB91,423,000.

Assets acquired at the date of acquisition:

	RMB'000
Property, plant and equipment	34,412
Inventories	57,011
	91,423

Cash outflow arising on acquisition:

Bank balances and cash paid	91,423

The financial information of the acquired business for the period from 1 January 2016 to 31 October 2016 (the "Pre-Acquisition Financial Information") has been prepared by the directors of Meide in accordance with the accounting policies set out in note 3 of the Historical Financial Information, which conform with HKFRSs.

(a) Statement of profit or loss and other comprehensive income

	RMB'000
Revenue	223,040
Cost of sales	(144,932)
Gross profit	78,108
Distribution and selling expenses	(9,794)
Administrative expenses	(8,431)
Research and development costs	(32,927)
Profit before taxation	26,956
Taxation charge	(4,043)
Profit and total comprehensive income for the period	22,913

(b) Notes to the financial information of the acquired business

(i) Revenue

Revenue represents the fair value of amounts received and receivable from sales of standard prefabricated pipe nipples, net of related taxes for the period from 1 January 2016 to 31 October 2016.

(ii) Income tax expenses

PRC EIT is calculated at 15% of the estimated assessable profits for the period.

(iii) Profit for the period

	RMB'000
Profit before taxation has been arrived at after charging:	
Auditor's remuneration	3
Staff costs	
Salaries and other benefits	21,221
Retirement benefits scheme contributions	1,218
	22,439
Depreciation on the property, plant and equipment	3,732
Cost of inventories sold	144,932

(iv) Property, plant and equipment

	Buildings *RMB'000*	**Machinery** *RMB'000*	**Total** *RMB'000*
COST			
As at 1 January 2016	16,641	44,055	60,696
Addition	—	160	160
As at 31 October 2016	16,641	44,215	60,856
ACCUMULATED DEPRECIATION			
As at 1 January 2016	4,394	20,929	25,323
Addition	807	2,925	3,732
As at 31 October 2016	5,201	23,854	29,055
CARRYING AMOUNT			
As at 31 October 2016	11,440	20,361	31,801

Included in the profit for the year ended 31 December 2016 is RMB6,298,000 attributable to the additional business generated by the business of manufacturing and sales of standard prefabricated pipe nipples. Revenue for the year ended 31 December 2016 included RMB52,896,000 generated from the business of manufacturing and sales of standard prefabricated pipe nipples.

Had the acquisitions been completed on 1 January 2016, total group revenue for the year would have been RMB685 million, and profit for the year would have been RMB47 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the business of manufacturing and sales of standard prefabricated pipe nipples been acquired at the beginning of 2016, the directors of the Group have calculated depreciation of property, plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the Pre-Acquisition Financial Information.

38. RESERVES OF THE COMPANY

	Share premium *RMB'000*	Capital reserve *RMB'000*	Accumulated loss *RMB'000*	Total *RMB'000*
At 1 February 2019 (date of incorporation)	—	—	(4,523)	(4,523)
Loss and total comprehensive expense for the period	—	—	(6,609)	(6,609)
Issue of shares on 18 April 2019 *(note 32)*	11,217	—	—	11,217
Waiver of listing expenses by a subsidiary	—	4,523	—	4,523
At 31 May 2019	11,217	4,523	(11,132)	4,608

39. CAPITAL RISK MANAGEMENT

Management of the Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of debt balance and equity balance. Equity balance consists of equity attributable to owners of the Group, comprising share capital/paid-in capital and reserves.

Management of the Group reviews the capital structure on an on-going annual basis. As part of this review, management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management of the Group, the Group will balance its overall capital structure through the payment of dividends, new capital injection as well as the issue of new debt.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December 2016 *RMB'000*	2017 *RMB'000*	2018 *RMB'000*	31 May 2019 *RMB'000*
The Group				
Financial assets				
Financial assets at FVTPL				
— Structured bank deposits	1,000	4,000	86,200	14,500
— Foreign currency forward contracts	—	—	643	—
Loans and receivables (including cash and cash equivalents)	200,812	287,911	—	—
Financial assets at amortised costs	—	—	270,607	231,684
Financial liabilities				
Amortised costs	361,670	430,916	394,097	508,143
Derivative financial instruments	—	—	179	—
The Company				
Financial liabilities				
Amortised costs	—	—	—	9,870

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, trade receivables backed by bills, deposits and other receivables, financial assets at FVTPL, pledged bank deposits, structured bank deposits, bank balances and cash, amounts due from/to a related party, amounts due to shareholders/former shareholders, trade and bill payables, other payables and accrued charges, derivative financial instruments, refund liabilities and borrowings. The Company's financial instruments include accrued charges and amount due to a subsidiary. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Market risk

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to other borrowings (note 30). The Group is also exposed to cash flow interest rate risk in relation to its pledged bank deposits, bank balances and variable-rate bank borrowings (notes 24 and 30).

The Group currently does not have interest rate hedging policy. However, management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for its variable-rate bank borrowings. The analysis is prepared assuming the variable-rate bank borrowings at the end of each reporting period were outstanding for the whole year and 50 basis points increase or decrease are used. The pledged bank deposits and bank balance are excluded from the sensitivity analysis as the management of the Group considers that the interest rate fluctuation is not significant.

If interest rates have been 50 basis points higher/lower for variable-rate bank borrowings, the Group's post-tax profit for the year ended 31 December 2018 and the five months ended 31 May 2019 would decrease/increase by RMB128,000 and RMB425,000 respectively.

Foreign currency risk

Certain bank balances, trade receivables and trade payables are denominated in US$, the currency other than the functional currency of the respective group entities, at end of each reporting period.

The Group currently does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's US$ denominated monetary assets and monetary liabilities at the end of each reporting period as follows:

	As at			
	31 December			31 May
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank balances	880	44,580	30,096	32,371
Trade receivables	36,250	64,830	63,334	46,699
Trade payables	—	—	134	190

Sensitivity analysis

Sensitivity analysis of strengthening 5% in functional currency of the Company (i.e. RMB) against US$ resulted a decrease in post-tax profit of RMB1,578,000, RMB4,650,000, RMB3,965,000 and RMB3,352,000 during the years ended 31 December 2016, 2017 and 2018 and the five months ended 31 May 2019 respectively. For a 5% weakening of RMB against US$, there would be an equal and opposite impact on the results.

5% is the sensitivity rate used and represents management's assessment of the reasonably possible change in foreign exchange rates.

(ii) Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position at the end of each reporting period. The Group does not have any collateral or other credit enhancements to cover its credit risks associated with financial assets.

The Group's credit risk is primarily attributable to its trade receivables, trade receivables backed by bills, deposits and other receivables, amounts due from related parties, pledged bank deposits and bank balances and cash. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, upon the application of HKFRS 9 on 1 January 2018, the Group has applied the simplified approach to measure the loss allowance on trade receivables and contract assets and trade related amounts due from related parties at lifetime ECL as disclosed in notes 17 and 22 based on individual assessment or provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on bill receivables are limited as those bills are issued by banks with high credit ratings assigned by international credit-rating agencies and no history of default in the past, thus no loss allowance provision for bills was recognised upon application of HKFRS 9.

At 31 December 2016, 2017 and 2018 and 31 May 2019 the Group had a concentration of credit risk as the largest customer and the top five trade debtors accounted for approximately 24.19% and 63.03%, 11.85% and 32.88%, 18.29% and 40.80%, and 32.05% and 49.75% respectively of its total trade receivables. Management of the Group regularly visits these customers to understand their business operations and cash flows position and follows up the subsequent settlement from the counterparties. In this regard, management of the Group considers that this credit concentration risk has been significantly mitigated.

For deposits and other receivables, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records and past experience. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. Upon the application of HKFRS 9 on 1 January 2018, the Group recognises the 12-month ECL on deposits and other receivables. There was no significant increase in credit risk on other receivables since initial recognition as at 1 January 2018, 31 December 2018 and 31 May 2019.

The Group have concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balance and pledged bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies and 12-month ECL is insignificant.

(iii) Liquidity risk

In the management of liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group and the Company's to finance its operations and mitigates the effects of fluctuations in cash flows.

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

The Group	Effective interest rate %	On demand RMB'000	1–3 months RMB'000	4–12 months RMB'000	1–5 years RMB'000	Total undiscounted cash flow RMB'000	Total carrying amount RMB'000
As at 31 December 2016							
Non-derivative financial liabilities							
Trade and bills payables	N/A	35,630	—	—	—	35,630	35,630
Other payables and accrued charges	N/A	11,117	—	—	—	11,117	11,117
Amount due to a related party	N/A	14,845	—	—	—	14,845	14,845
Fixed-rate other borrowings	4.65	—	—	314,028	—	314,028	300,078
		61,592	—	314,028	—	375,620	361,670
As at 31 December 2017							
Non-derivative financial liabilities							
Trade and bills payables	N/A	85,116	—	—	—	85,116	85,116
Refund liabilities	N/A	6,345	—	—	—	6,345	6,345
Other payables and accrued charges	N/A	12,030	—	—	—	12,030	12,030
Amount due to a related party	N/A	26,751	—	—	—	26,751	26,751
Fixed-rate other borrowings	4.65	—	—	314,624	—	314,624	300,674
		130,242	—	314,624	—	444,866	430,916
As at 31 December 2018							
Non-derivative financial liabilities							
Trade and bills payables	N/A	51,570	—	—	—	51,570	51,570
Refund liabilities	N/A	15,781	—	—	—	15,781	15,781
Other payables and accrued charges	N/A	14,940	—	—	—	14,940	14,940
Amount due to a related party	N/A	11,559	—	—	—	11,559	11,559
Fixed-rate other borrowings	4.55	—	—	279,467	—	279,467	270,222
Variable-rate bank borrowings	4.80	—	—	30,625	—	30,625	30,025
Lease liabilities	4.80	—	206	618	1,695	2,519	2,352
		93,850	206	310,710	1,695	406,461	396,449
As at 31 May 2019							
Non-derivative financial liabilities							
Trade and bills payables	N/A	41,862	—	—	—	41,862	41,862
Refund liabilities	N/A	10,928	—	—	—	10,928	10,928
Other payables and accrued charges	N/A	22,348	—	—	—	22,348	22,348
Amounts due to shareholders/former shareholders	N/A	162,670	—	—	—	162,670	162,670
Fixed-rate other borrowings	4.60	—	171,628	—	—	171,628	170,211
Variable-rate bank borrowings	4.39	—	—	103,782	—	103,782	100,124
Lease liabilities	4.80	—	206	635	1,335	2,176	2,052
		237,808	171,834	104,417	1,335	515,394	510,195
The Company							
As at 31 May 2019							
Other payables and accrued charges	N/A	3,645	—	—	—	3,645	3,645
Amounts due to related parties	N/A	6,225	—	—	—	6,225	6,225
		9,870	—	—	—	9,870	9,870

(c) Fair value measurement

The following provides information about how the Group determines fair value of various financial assets and financial liabilities.

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

Some of the Group's financial assets are measured at fair values at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at				Fair value hierarchy	Basis of fair value measurement	Significant unobservable input	Relationship of unobservable inputs to fair value
	31.12.2016	31.12.2017	31.12.2018	31.05.2019				
Commodity derivative contracts at FVTPL	N/A	N/A	Liabilities: RMB179,000	N/A	Level 1	Quoted bid prices in an Shanghai Futures Exchange	N/A	N/A
Foreign currency forwards contracts at FVTPL	N/A	N/A	Assets: RMB643,000	N/A	Level 2	Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates.	N/A	N/A
Structured bank deposits at FVTPL	RMB1,000,000	RMB4,000,000	RMB86,200,000	RMB14,500,000	Level 3	Future cash flows are estimated based on estimated return, and discounted at a rate that reflects the credit risk of various counterparties.	Estimated return	The higher the estimated return, the higher the fair value, vice versa

Note:

A 5% decrease in the estimated return rates holding all other variables constant would decrease the carrying amount of the structured bank deposits at FVTPL by nil, nil, RMB9,000 and RMB43,000 as at 31 December 2016, 2017 and 2018 and 31 May 2019.

A 5% increase in the estimated return rates holding all other variables constant would increase the carrying amount of the structured bank deposits at FVTPL by nil, nil, RMB9,000 and RMB43,000 as at 31 December 2016, 2017 and 2018 and 31 May 2019.

Reconciliation of Level 3 Measurements

The following table represents the reconciliation of Level 3 Measurements throughout the Track Record Period:

	Structured bank deposits at FVTPL
	RMB'000
At 1 January 2016	53,400
Purchase	267,850
Redemption	(320,905)
Net gain	655
At 31 December 2016	1,000
Purchase	91,800
Redemption	(89,084)
Net gain	284
At 31 December 2017	4,000
Purchase	233,450
Redemption/disposal	(151,517)
Net gain	267
At 31 December 2018	86,200
Purchase	94,300
Redemption/disposal	(166,833)
Net gain	833
At 31 May 2019	14,500

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

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values.

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

41. MOVEMENT ON GROUP'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Accrued listing and issue costs	Amounts due to shareholders	Non-trade nature amounts due to related parties	Lease liabilities	Borrowings	Dividend payable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	—	—	151,000	—	—	—	151,000
Dividends declared	—	—	—	—	—	22,602	22,602
Interest expenses	—	—	—	—	1,159	—	1,159
Financing cash flows	—	—	(151,000)	—	298,919	(22,602)	125,317
At 31 December 2016	—	—	—	—	300,078	—	300,078
Interest expenses	—	—	—	—	14,957	—	14,957
Financing cash flows	—	—	—	—	(14,361)	—	(14,361)
At 31 December 2017	—	—	—	—	300,674	—	300,674
Interest expenses	—	—	—	9	14,455	—	14,464
Deferred issue costs	1,508	—	—	—	—	—	1,508
Financing cash flows	(1,508)	—	—	(68)	(14,882)	—	(16,458)
Recognition of lease liabilities	—	—	—	2,411	—	—	2,411
At 31 December 2018	—	—	—	2,352	300,247	—	302,599
Interest expenses	—	—	—	43	5,208	—	5,251
Deferred issue costs	1,753	—	—	—	—	—	1,753
Financing cash flows	(914)	(11,217)	—	(343)	(35,120)	—	(47,594)
Consideration payable in relation to acquisition of remaining shares in Jinan Mech upon Reorganisation	—	173,887	—	—	—	—	173,887
At 31 May 2019	839	162,670	—	2,052	270,335	—	435,896

42. PARTICULARS OF SUBSIDIARIES

Investment in a subsidiary

	As at 31 December
	RMB'000
The Company	
— unlisted investment in a subsidiary, at cost	11,217

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

Name of subsidiary	Place and the date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to owners of the Company at 31 December 2016	2017	2018	31 May 2019	Date of report	Principal activities	*Notes*
Directly held:									
Guan Dao Investments Limited	The BVI 3 January 2019	US$1	—	—	—	100%	100%	Investment holding	(a)
Indirectly held:									
Jinan Mech	PRC 21 May 2013	RMB167,700,000	51.28%	51.37%	51.46%	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes	(b)
Jinan Ma Steel	PRC 13 October 2001	RMB60,000,000	51.28%	51.37%	51.46%	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes	(b)
Tube Industry Investments Limited	Hong Kong 23 January 2019	HK$10,000	N/A	N/A	N/A	100%	100%	Investment holding	(c)
Viet Nam Piping Industries Company Limited	Vietnam 7 January 2019	US$2,000,000	N/A	N/A	N/A	100%	100%	Manufacturing and sales of steel pipe, pipe nipples and insulated steel pipes	(c)

Notes:

(a) No audited financial statements of Guan Dao Investments have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

(b) As at 31 December 2016, Mr. Kong held 51.28% direct interest in Jinan Mech. As at 31 December 2017, his shareholding in Jinan Mech increased to 51.37% after he obtained 2.26% interest in Tong Chuang Shun De Investment and Management Partnership, which in turn held 3.906% interest in Jinan Mech, in 2017. His shareholding in Jinan Mech further increased to 51.46% as at 31 December 2018 after he obtained 0.35% interest in Tong Chuang Sheng De Investment and Management Partnership, which in turn held 28.27% interest of Jinan Mech, in 2018.

The statutory of Jinan Mech and Jinan Ma Steel for the year ended 31 December 2016, 2017 and 2018 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprise established in the PRC. They were audited by 山東大舜會計師事務所, 山東新天地會計師事務所 and 山東舜天信誠會計師事務所平陰分所 respectively, certified public accountants registered in the PRC.

(c) No statutory audited financial statements have been prepared for the period since date of incorporation as they are not yet due to issue.

All the companies comprising the Group have adopted 31 December as their financial year end date.

43. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Historical Financial Information, subsequent events of the Group are detailed as below.

Pursuant to written resolutions of the Company's shareholders passed on 19 November 2019, conditional upon the crediting of the share premium account of the Company as a result of the issue of shares pursuant to the allotment set out in the section headed "Share Capital" in the Prospectus, the directors of the Company had authorised to allot and issue a total of 335,383,230 shares, by way of capitalisation of the sum of approximately US$33,538.3 standing to the credit of the share premium account of the Company, credited as fully paid at par to the shareholders as appearing on the register of members of the Company ("Capitalisation Issue"), details are set out Appendix IV to the Prospectus.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 May 2019.

The information set forth in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the Track Record Period prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth 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 financial information for each of the three years ended 31 December 2018 and the five months ended 31 May 2019 set forth in Appendix I to this Prospectus.

A. UNAUDITED STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to owners of the Company as if the Global Offering had taken place on 31 May 2019.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 or any future date.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share as at 31 May 2019	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on Offer Price of HK$1.86 per Offer Share	248,272	135,909	384,181	0.886	1.030
Based on Offer Price of HK$2.40 per Offer Share	248,272	180,232	428,504	0.988	1.149

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 is extracted from the Accountants' Report as set out in Appendix I to this Prospectus.

(2) The estimated net proceeds from the Global Offering are based on 98,400,000 Offer Shares at the lower and upper limit of HK$1.86 (equivalent to RMB1.60) and HK$2.40 (equivalent to RMB2.06) per Offer Share, respectively, after taking into account of the estimated underwriting fees and other listing related expenses incurred or to be incurred by our Company (excluding the listing expenses which has been charged to profit or loss up to 31 May 2019), and without taking into account of any shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares. For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK$1 to RMB0.86.

(3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company as at 31 May 2019 per Share is arrived at on the basis that 433,800,000 Shares were in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 31 May 2019 and without taking into account of any shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of shares.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted to Hong Kong dollar at the rate of HK$1 to RMB0.86. No representation is made that the Renminbi have been, would have been or may be converted to Hong Kong dollars, at that rate or at any other rates.

(5) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 May 2019, in particular, the unaudited pro forma adjusted consolidated net tangible assets has not been adjusted for the effect of the capitalisation of loan of which a loan in the sum of RMB162,670,000 lent to Tube Industry Investments Limited in October 2019 by some of the shareholders of the Group, including Ying Stone Holdings Limited, Tong Chuang Sheng De Limited, Tong Chuang Shun De Limited, Tong Chuang Xing De Limited and Tong Chuang Chang De Limited, shall be capitalised by the issue of 10,000 Shares of Tube Industry Investments Limited to Guan Dao Investments Limited. Had the capitalisation of loan been taken into account by adjusting RMB162,670,000 to the Group's unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 September 2019, the unaudited pro forma adjusted consolidated net tangible assets per Share would be increased to HK$1.466 and HK$1.585 based on the Offer Price of HK$1.86 per Share and HK$2.40 per Share respectively which is arrived at on the basis of a total of 433,800,000 Shares.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF MAIKE TUBE INDUSTRY HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Maike Tube Industry Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group as at 31 May 2019 and related notes, as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 29 November 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on page II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed offer of shares of the Company on The Stock Exchange of Hong Kong Limited (the "Global Offering") on the Group's financial position as at 31 May 2019 as if the Global Offering had taken place at 31 May 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for each of the three years ended 31 December 2018 and the five months ended 31 May 2019, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited 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 Unaudited Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "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.

Our 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 unaudited 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 unaudited 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 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 unaudited 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 purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited 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 unaudited pro forma financial information.

The purpose of unaudited 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 the event or transaction at 31 May 2019 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited 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 unaudited 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 unaudited 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 unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma 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:

(a) the unaudited 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 unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 November 2019

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 19 November 2019 and states, *inter alia*, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Cayman Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed "Documents available for inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 19 November 2019 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is US$500,000 divided into 5,000,000,000 shares of US$0.0001 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Cayman Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) 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 and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Cayman Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Cayman Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Cayman Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment 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 first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

(i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or

(B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) 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. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board 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 shall perform any special or extra services 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 agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed 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 share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed.

The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

(ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

(iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company 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, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) 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 assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the Chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Cayman 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 meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

(a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each 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;

(b) 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 subject to the provisions of the Cayman Companies Law; and

(c) 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 provisions of the Cayman Companies Law, and so that the resolution whereby any share is 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.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Cayman Companies Law.

2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Cayman Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 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 each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, 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 in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

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 allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members holding together, as at the date of deposit of the requisition, shares representing not less than one-tenth of the paid up capital of the Company which carry the right of voting at general meetings of the Company. The written requisition shall be deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office of the Company specifying the objects of the meeting and signed by the requisitionist(s). If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Cayman Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Cayman Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

If, after the notice of a general meeting has been sent but before the meeting is held, or after the adjournment of a general meeting but before the adjourned meeting is held (whether or not notice of the adjourned meeting is required), the Directors, in their absolute discretion, consider that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time and place specified in the notice calling such meeting, it may change or postpone the meeting to another date, time and place.

The Directors also have the power to provide in every notice calling a general meeting that in the event of a gale warning or a black rainstorm warning is in force at any time on the day of the general meeting (unless such warning is cancelled at least a minimum period of time prior to the general meeting as the Directors may specify in the relevant notice), the meeting shall be postponed without further notice to be reconvened on a later date. Where a general meeting is so postponed, the Company shall endeavour to cause a notice of such postponement to be placed on the Company's website and published on the Stock Exchange's website as soon as practicable, but failure to place or publish such notice shall not affect the automatic postponement of such meeting.

Where a general meeting is postponed:

(a) the Directors shall fix the date, time and place for the reconvened meeting and at least seven clear days' notice shall be given for the reconvened meeting; and such notice shall specify the date, time and place at which the postponed meeting will be reconvened and the date and time by which proxies shall be submitted in order to be valid at such reconvened meeting (provided that any proxy submitted for the original meeting shall continue to be valid for the reconvened meeting unless revoked or replaced by a new proxy); and

(b) notice of the business to be transacted at the reconvened meeting shall not be required, nor shall any accompanying documents be required to be recirculated, provided that the business to be transacted at the reconvened meeting is the same as that set out in the notice of the original meeting circulated to the members of the Company.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;

(e) the shares concerned are free of any lien in favour of the Company; and

(f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on six business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Cayman Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Cayman Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be payable at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies 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 also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

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: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company 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 of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies 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 at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Cayman Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Cayman Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF THE CAYMAN COMPANIES LAW AND TAXATION

1 Introduction

The Cayman Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Cayman Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 1 February 2019 under the Cayman Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Cayman Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Cayman Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, 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 company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Cayman Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Cayman Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Cayman Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Cayman Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Cayman Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association.

The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

(a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and

(b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:

   (i) on or in respect of the shares, debentures or other obligations of the Company; or

   (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking is for a period of twenty years from 18 April 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in "Documents available for inspection" in Appendix V to this prospectus. 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/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 1 February 2019. Its registered address is at Vistra (Cayman) Limited, P.O. BOX 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands.

Our Company was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 April 2019 and our principal place of business in Hong Kong is at Unit 629A, 6th Floor, Star House, No. 3 Salisbury Road, Tsim Sha Tsui, Kowloon, Hong Kong. Leung Wing Lun has been appointed as the authorised representative of our Company for the acceptance of service of process and any notice required to be served in Hong Kong.

The operation of our Company is subject to the Cayman Companies Law and our constitution comprises the Memorandum and Articles. A summary of certain provisions of the Articles and relevant aspects of the Cayman Companies Law is set forth in Appendix III to this prospectus.

2. Changes in the Share Capital of our Company

The authorised share capital of our Company as at the date of its incorporation was US$50,000.0 divided into 500,000,000 Shares of US$0.0001 each. Upon incorporation, one Share was issued and allotted to the initial subscriber which was transferred to Ying Stone on 1 February 2019. On the same day, our Company issued and allotted (i) 8,629 Shares, along with the one share transferred from the initial subscriber, representing approximately 53.052% of the issued share capital of our Company, to Ying Stone; (ii) 3,508 Shares, representing 21.565% of the issued share capital of our Company, to Tong Chuang Sheng De BVI; (iii) 982 Shares, representing 6.037% of the issued share capital of our Company, to Tong Chuang Shun De BVI; (iv) 595 Shares, representing 3.658% of the issued share capital of our Company, to Tong Chuang Chang De BVI; and (v) 2,552 Shares, representing 15.688% of the issued share capital of our Company, to Tong Chuang Xing De BVI. On 18 April 2019, our Company issued and allotted 503 Shares, representing 2.999% of the issued share capital of our Company, to Meining Investments as consideration for our acquisition of the entire issued share capital of Guan Dao Investments. Pursuant to the written resolution of the Shareholders passed on 19 November 2019, the authorised share capital of our Company will be increased from US$50,000 divided into 500,000,000 Shares of US$0.0001 each to US$500,000 divided into 5,000,000,000 Shares of US$0.0001 each by the creation of additional 4,500,000,000 Shares in the capital of the Company, conditional upon and effective from the Listing.

Immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), the authorised share capital of our Company will be US$500,000 divided into 5,000,000,000 Shares, of which 433,800,000 Shares are issued and fully paid or credited as fully paid, and 4,566,200,000 Shares will remain unissued.

Save for aforesaid and as mentioned in "A. Further Information about Our Company and Our Subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 19 November 2019" in this appendix, there has been no alteration in the share capital of our Company since its incorporation.

As at the Latest Practicable Date, our Company had no founder shares, management shares, treasury shares or deferred shares.

3. Resolutions in Writing of all our Shareholders passed on 19 November 2019

(i) Pursuant to the resolutions in writing of all our Shareholders passed on 19 November 2019:

(a) the Memorandum and the Articles, which will come into effect upon the Listing, were adopted and approved;

(b) conditional on (i) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering and the Share Option Scheme) and such approval not subsequently having been withdrawn or revoked prior to the commencement of dealings in the Shares on the Stock Exchange; (ii) the Offer Price having been agreed; (iii) the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any condition(s)) (for themselves and on behalf of the other Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:

(i) the Global Offering were approved and our Directors were authorised to effect the same and to allot and issue the new Shares pursuant to the Global Offering;

(ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of the options which may be granted under the Share Option Scheme; and

(iii) the proposed Listing was approved and our Directors were authorised to implement the Listing;

(c) conditional on the share premium account of our Company being credited as a result of the Global Offering, the Directors were authorised to capitalise US$33,538.3 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 335,383,230 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on the day prior to the Listing Date (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 shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution should rank *pari passu* in all respects with the then existing issued Shares and the Directors were authorised to give effect to such capitalisation and to allot and issued Shares pursuant thereto;

(d) a general unconditional mandate was granted to our Directors to, *inter alia*, allot, issue and deal with Shares, securities convertible into Shares (the "**Convertible Securities**") or options, warrants or similar rights to subscribe for any Shares or such convertible securities (the "**Options and Warrants**") and to make or grant offers, agreements or options which might require such Shares, the Convertible Securities or the Options and Warrants to be allotted and issued or dealt with at any time subject to the requirement that the aggregate number of the Shares or the underlying Shares relating to the Convertible Securities or the Options and Warrants so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed 20.0% of the aggregate number of the Shares in issue immediately upon completion of the Global Offering.

This mandate does not cover Shares to be allotted, issued or dealt with under a rights issue, any scrip dividend scheme or a specific authority granted by our Shareholders. Such mandate will remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders passed in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Memorandum of Association and the Articles; or

(iii) it is varied or revoked by an ordinary resolution of our Shareholders passed at a general meeting of our Company;

(e) a general unconditional mandate was granted to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate nominal value not exceeding 10.0% of the aggregate number of the Share in issue immediately upon completion of the Global Offering.

This mandate only relates to repurchase made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose) and which are in accordance with all applicable laws and regulations and the requirements of the Listing Rules. Such mandate to repurchase Shares will remain in effect until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders passed in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under the applicable laws or the Memorandum of Association and the Articles; or

(iii) the date on which it is varied or revoked by an ordinary resolution of our Shareholders passed at a general meeting of our Company;

(f) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above (up to 10.0% of the aggregate nominal value of the Shares in issue immediately upon completion of the Global Offering, without talking into account the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme).

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. See "History, Reorganisation and Corporate Structure" in this prospectus for further details.

5. Particulars of our subsidiaries

Particulars of our principal subsidiaries are set forth in the Accountants' Report set out in Appendix I to this prospectus. Save as set out in Appendix I to this prospectus, we do not have any other subsidiaries.

6. Changes in the Share Capital of other members of our Group

On 16 October 2019, Tube Industry Investments allotted and issued 10,000 ordinary shares to Guan Dao Investments as full settlement of the RMB162.7 million loan provided by Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI and Tong Chuang Chang De BVI (collectively, the "**Lenders**") to Tube Industry Investments pursuant to a loan agreement dated 14 October 2019 entered into by the Lenders, Tube Industry Investments, Guan Dao Investments and our Company. For details, please see "Relationship with our Controlling Shareholders — Independence from our Controlling

Shareholders — Financial Independence". After the said allotment, Guan Dao Investments held 20,000 ordinary shares, representing 100% of the issued share capital of Tube Industry Investments.

Except as disclosed above and in "History, Reorganisation and Corporate Structure", there has been no alteration in the share capital or registered capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

7. Repurchase of Our Securities by our Company

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listings are on the Main Board of the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing of all our Shareholders passed on 19 November 2019, a general unconditional mandate (the "**Repurchase Mandate**") was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10.0% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately upon completion of the Global Offering (without taking into account the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), at any time until the earliest of (a) the conclusion of the next annual general meeting of our Company (unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions), (b) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum of Association or Articles to be held and (c) the date on which such mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases of Shares must only be funded out of funds legally permitted to be utilised in this connection (namely profits of our Company or the proceeds from a new issue of shares made for the purpose of the repurchase, or, if so authorised by the Articles and subject to the Cayman Companies Law, out of capital) in accordance with the Memorandum of Association and Articles, the Listing Rules and the applicable laws of the Cayman Islands. Any premium on a repurchase may be made out of profits of our Company or from sums standing to the credit of our Company's share premium account or, if so authorised by the Articles and subject to the Cayman Companies Law, out of capital. A 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.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10.0% of the aggregate nominal value of shares in issue on the date the repurchase mandate is granted. A listed company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5.0% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A listed company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase made on behalf of the listed company as the Stock Exchange may require.

(iv) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the laws of the Cayman Islands, a company's repurchased shares which are not held as treasury shares by our Company are to be treated as cancelled, and the amount of our Company's issued share capital shall be diminished by the nominal value of those shares accordingly. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman Companies Law.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) 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 a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for a listed company to announce its results for any year or 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, the listed company may not repurchase its securities on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year reviewed, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid.

(vii) Core connected persons

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their respective close associates (as defined in the Listing Rules) and a core connected person (as defined in the Listing Rules) is prohibited from knowingly selling his securities to the company, on the Stock Exchange.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and Shareholders for our Directors to receive the general authority from our Shareholders to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will be in the interest of our Company and our Shareholders. Such repurchases may, depending on market conditions, funding arrangements and other circumstances at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

Any payment for the repurchase of Shares will be drawn from the profits or share premium of our Company or from the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, under the circumstances, have a material adverse effect in the opinion of our Directors on the working capital requirements of our Company or its gearing levels.

However, there might be a material adverse impact on the working capital or gearing position of our Company as compared with the position disclosed in this prospectus in the event that the Repurchase Mandate is exercised in full.

(d) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 433,800,000 Shares in issue immediately after the completion of the Global Offering (without taking into account the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), could accordingly result in up to 43,380,000 Shares being repurchased by our Company during the period until the earliest of:

(i) the conclusion of the next annual general meeting of our Company unless otherwise renewed by an ordinary resolution of our Shareholders passed in a general meeting, either unconditionally or subject to conditions;

(ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Memorandum or Articles to be held; or

(iii) the date on which the Repurchase Mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

unless otherwise renewed by an ordinary resolution of our Shareholders in a general meeting.

(e) General

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or our subsidiaries.

Our 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. Our Company has not repurchased any Shares since its incorporation.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, 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, depending on the level of the increase of our Shareholders' interest, 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 as a result. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

Our 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 25.0% 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). Any repurchase of Shares that results in the number of Shares held by the public being reduced to less than 25.0% of the Shares then in issue could only be implemented if the Stock Exchange agreed to waive the Listing Rules requirements regarding the public shareholding referred to above. It is believed that a waiver of this provision would not normally be given other than in exceptional circumstances.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by us within the two years preceding the date of this prospectus and are or may be material:

(1) the equity transfer agreement dated 5 March 2019 entered into between Tong Chuang Sheng De LP and Tube Industry Investments, pursuant to which Tong Chuang Sheng De LP agreed to transfer registered capital of RMB5.03 million in Jinan Mech to Tube Industry Investments at a consideration of RMB11,216,900;

(2) the share purchase agreement dated 18 April 2019 entered into by and among Mr. Meining, Meining Investments and our Company, pursuant to which Mr. Meining agreed to sell to our Company one share in Guan Dao Investments, representing its entire issued share capital, at a consideration of 503 Shares agreed to be allotted and issued by our Company to Meining Investments;

(3) the equity transfer agreement dated 6 May 2019 entered into by and among Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP, Tong Chuang Xing De LP and Tube Industry Investments, pursuant to which Mr. Kong, Tong Chuang Sheng De LP, Tong Chuang Shun De LP, Tong Chuang Chang De LP and Tong Chuang Xing De LP agreed to respectively transfer registered capital in Jinan Mech of RMB86.00 million, RMB42.37 million, RMB9.97 million, RMB6.30 million and RMB18.03 million, representing 51.28%, 25.26%, 5.95%, 3.76% and 10.75% interest in Jinan Mech, to Tube Industry Investments, for consideration of RMB86.00 million, RMB42.37 million, RMB9.97 million, RMB6.30 million and RMB18.03 million, respectively;

(4) the loan agreement dated 14 October 2019 entered into by and among Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI, Tong Chuang Chang De BVI, Tube Industry Investments, Guan Dao Investments and our Company, pursuant to which Ying Stone, Tong Chuang Sheng De BVI, Tong Chuang Shun De BVI, Tong Chuang Xing De BVI, Tong Chuang Chang De BVI agreed to provide loan to Tube Industry Investments in the amount of RMB86.30 million, RMB35.08 million, RMB9.82 million, RMB25.52

million, RMB5.95 million, respectively, and Tube Industry Investments agreed to issue and allot 10,000 ordinary shares to Guan Dao Investments within three months from the signing date of the loan agreement as repayment;

(5) the Deed of Indemnity;

(6) the cornerstone investment agreement dated 26 November 2019 entered into by and among our Company, Shanghai Heng Yuan International Investment Limited* (上海恒源國際投資有限公司) ("**SH Heng Yuan**"), Zhao Pu (趙璞), Fortune (HK) Securities Limited and Zhongtai International Securities Limited, pursuant to which SH Heng Yuan agreed to subscribe for 22,000,000 Shares at the Offer Price, through an asset manager which is a qualified domestic institutional investor, for an aggregate amount of the Offer Price multiplied by such number of Shares; and

(7) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, we were the registered owner of and had the right to use the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Registration	Registration Number	Registered Owner	Class	Registration Period
1.	迈科	PRC	3169179	Jinan Mech	11	7 September 2013 to 6 September 2023
2.	MAIKE 迈固	PRC	14722060	Jinan Mech	11	28 June 2015 to 27 June 2025
3.	MAIKE	PRC	3168056	Jinan Mech	11	28 August 2013 to 27 August 2023
4.		PRC	1189680	Jinan Mech	11	7 July 2018 to 6 July 2028
5.	迈科	PRC	3169177	Jinan Mech	6	28 July 2013 to 27 July 2023
6.	MAIKE 迈固	PRC	14722181	Jinan Mech	6	28 June 2015 to 27 June 2025
7.	MAIKE	PRC	3168266	Jinan Mech	6	7 February 2014 to 6 February 2024
8.		PRC	26817863	Jinan Mech	6	14 April 2019 to 13 April 2029
9.		Hong Kong	304344967	Jinan Mech	6	23 November 2017 to 22 November 2027

On 16 November 2016, we have engaged an intellectual property rights registration agent to arrange for two of our trademarks to be registered in class 6 and class 11 in 118 jurisdictions.

As at the Latest Practicable Date, the following trademark rights were licensed to our Group which we consider to be or may be material to our business ("**Meide Trademarks**"):

No.	Trademark	Place of Registration	Registration Number	Registered Owner	Class	Registration Period
1.		PRC	3168257	Meide	6	28 July 2013 to 27 July 2023
2.	迈 克	PRC	3168258	Meide	6	28 July 2013 to 27 July 2023
3.	MECH	PRC	8712168	Meide	6	14 October 2011 to 13 October 2021
4.	迈 克	PRC	842523	Meide	11	28 May 2016 to 27 May 2026

(b) Patent

As at the Latest Practicable Date, we were the registered owner of the following patent which we believe is material to our business:

No.	Patent Name	Place of Registration	Patent Number	Applicant/ Owner	Application Date	Period of Validity (No. of Years)
1.	A deburring equipment in longitudinal welded pipe (一種直縫焊管內毛刺刮除設備)	PRC	2016112072461	Jinan Mech	23 December 2016	20 years
2.	An automatic feeding device for steel pipe joint threading and chamfering (一種鋼管接頭套絲倒角自動上料裝置)	PRC	2016112072033	Jinan Mech	23 December 2016	20 years

No.	Patent Name	Place of Registration	Patent Number	Applicant/ Owner	Application Date	Period of Validity (No. of Years)
3.	A deep-processing steel pipe anti-collision conveyer (一種深加工鋼管防碰撞傳送裝置)	PRC	2016112072315	Jinan Mech	23 December 2016	20 years
4.	A method to prepare galvanised and electrophoretic paint- coated steel pipe used for fuel gas (一種燃氣用鍍鋅電泳漆鋼管的製備方法)	PRC	2016112072211	Jinan Mech	23 December 2016	20 years
5.	A conveying device for painted steel pipe (一種噴漆鋼管輸送裝置)	PRC	2016111169671	Jinan Mech	7 December 2016	20 years
6.	A machining equipment for automatic steel pipe chamfering and threading and the application thereof (一種鋼管自動倒角套絲加工設備及其使用辦法)	PRC	2016100554181	Jinan Mech	27 January 2016	20 years
7.	A machining equipment for automatic steel pipe grooving (一種鋼管自動壓槽加工設備)	PRC	2016100552701	Jinan Mech	27 January 2016	20 years
8.	Automatic loading and conveying system of special high-speed steel pipe machining equipment and the application thereof (高轉速鋼管加工專機自動上、送料系統及其使用方法)	PRC	2013107170742	Jinan Mech	23 December 2013	20 years

No.	Patent Name	Place of Registration	Patent Number	Applicant/ Owner	Application Date	Period of Validity (No. of Years)
9.	An automatic steel pipe joint thread machining equipment (一種鋼管接頭螺紋自動加工設備)	PRC	2016100552966	Jinan Mech	27 January 2016	20 years
10.	A spectrometer welding wire detection connector (一種光譜儀焊絲檢測連接器)	PRC	2016100558055	Jinan Ma Steel	27 January 2016	20 years
11.	Oil-storage type lead screw frame (儲油式絲杠架)	PRC	201310716975X	Jinan Ma Steel	23 December 2013	20 years
12.	Side outlet inker (側出口印字機)	PRC	2011104281852	Jinan Ma Steel	20 December 2011	20 years
13.	Lead screw brake-shoe feed automatic threading machine for steel pipes (絲杠閘瓦進給鋼管自動套絲機)	PRC	2011103407730	Jinan Ma Steel	2 November 2011	20 years
14.	Automatic blanking machine for steel pipes (鋼管自動下料機)	PRC	2010105906226	Jinan Ma Steel	16 December 2010	20 years
15.	A connecting device for anti-corrosive steel pipes processing (一種防腐鋼管加工連接裝置)	PRC	2019204347156	Jinan Ma Steel	1 April 2019	10 years
16.	A device for producing a sample of polyethylene anti-corrosive coating for undergoing tensile strength test (一種制備聚乙烯防腐層拉伸實驗試樣的設備)	PRC	2019204347137	Jinan Ma Steel	1 April 2019	10 years

No.	Patent Name	Place of Registration	Patent Number	Applicant/ Owner	Application Date	Period of Validity (No. of Years)
17.	A section fitting that connects pipes and tubes (一種管道連接支管段體)	PRC	2019203068502	Jinan Mech	11 March 2019	10 years
18.	A device for steel pipe packing and turning (一種鋼管打包帶轉動使用裝置)	PRC	2018222286211	Jinan Mech	27 December 2018	10 years

As at the Latest Practicable Date, we are registering the following patent which we believe is material to our business:

No.	Patent Name	Registration Number	Applicant	Application Date
1.	A galvanised plastic-coated steel pipe for fire protection (一種消防用鍍鋅塗塑鋼管)	2019203069825	Jinan Mech	11 March 2019
2.	A longitudinal welded pipe online printing device (一種直縫焊管在線印字設備)	2019203068911	Jinan Mech	11 March 2019
3.	A device for steel pipe packing and bending (一種鋼管打包帶折彎裝置)	2019203068790	Jinan Mech	11 March 2019

(c) Domain Name

As at the Latest Practicable Date, we had registered the following domain names which we consider to be or may be material to our business:

No.	Domain Name	Registrant	Registration Date	Expiry Date
1.	www.mechpipingtech.com	Jinan Mech	2017.11.14	2020.11.14

Save as aforesaid, as at the Latest Practicable Date, there were no other trade or service marks, patents, intellectual or industrial property rights which were material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interest — interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately upon completion of the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), the interest or short position of our Directors or chief executive of our Company in the Shares, underlying shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"), to be notified to our Company and the Stock Exchange, once the Shares are listed, are as follows:

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

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

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 433,800,000 Shares in issue immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme).

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

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

(b) Particulars of service contracts and letters of appointment

Each of our executive Directors has entered into a service contract with our Company on 19 November 2019. We have issued letters of appointment to each of our independent non-executive Directors on 19 November 2019. The principal particulars of these service contracts and the letters of appointment are (i) for an initial fixed term of three years commencing from the Listing Date, and (ii) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Rules.

Save as disclosed above, none of our Directors has entered, or has proposed to enter a service contract with any member of our Group (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors' remuneration

The aggregate remuneration (including fees, salaries, bonuses and other benefits in kind such as pensions) of our Directors incurred for the three years ended 31 December 2018 and the five months ended 31 May 2019 was approximately RMB1.0 million, RMB2.2 million, RMB2.3 million and RMB0.8 million respectively, which included the aggregate pensions for our Directors in respect of the three years ended 31 December 2018 and the five months ended 31 May 2019 of approximately RMB94,000.0, RMB0.2 million, RMB0.2 million and RMB82,000 respectively.

There was no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three financial years immediately preceding the issue of this prospectus.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest-paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any members of our Group.

Save as disclosed in the Accountants' Report set out in Appendix I to this prospectus, no other amounts have been paid or are payable by any member of our Group to our Directors during the Track Record Period.

Pursuant to the existing arrangements that are currently in force as at the date of this prospectus, the amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending 31 December 2019 is estimated to be approximately RMB2.9 million in aggregate.

2. Substantial Shareholders

Save as disclosed in "1. Directors" above and in the section headed "Substantial Shareholders" in this prospectus, our Directors are not aware of any person who will, immediately upon completion of the Capitalisation Issue and the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), have an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10.0% or more of any member of our Group other than our Company. Our Directors are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

3. Personal Guarantees

Our Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted or to be granted to any member of our Group.

4. Agency fees or commissions received

Save as disclosed in "Underwriting" in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

5. Related-Party Transactions

During the three years preceding the date of this prospectus, we were engaged in related party transactions as described in note 35 of the Accountants' Report set out in Appendix I to this prospectus.

6. Directors' Competing Interest

None of our Directors are interested in any business apart from our Group's business which competes or is likely to compete, directly or indirectly, with the business of our Group.

7. Disclaimers

Save as disclosed herein:

(a) none of our Directors or the chief executive of our Company has any interest or short position in then 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 he has taken or deemed to have taken 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 once the Shares are listed on the Stock Exchange;

(b) none of our Directors nor any of the parties referred to under "D. Other Information — 8. Qualification of Experts" in this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;

(c) none of our Directors nor any of the parties referred to under "D. Other Information — 8. Qualification of Experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group as a whole;

(d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) so far as is known to our Directors or chief executive of our Company, no person (not being a Director or chief executive of our Company) who will, immediately upon completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO, or be interested, directly or indirectly, in 10.0% or more of the issued voting shares of any other member of our Group; and

(f) none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5.0% of the issued share capital of our Company has any interest in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by our Shareholders on 19 November 2019 ("**Adoption Date**"):

(a) Purpose of the scheme and performance target

The purpose of the Share Option Scheme is to enable our Group to grant options as defined in the Share Option Scheme to selected participants as incentives or rewards for their contributions to our Group. The Board has not specified any performance target that must be achieved before options can be exercised.

Given that the Board are entitled to determine any performance targets to be achieved and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the

Board, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increase of market price of the Shares in order to capitalise on the benefits of the options granted.

(b) Who may join

The Board may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "**Eligible Persons**"), to take up options to subscribe for Shares:

Any individual, being an employee (whether full time or part time), director (including independent non-executive Director), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of our Company, its subsidiaries or any entity (the "**Invested Entity**") who the Board considers, in their sole discretion, to have contributed or will contribute to our Company, is entitled to be offered and granted options.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, any person who falls within any of the above classes shall not, by itself, unless the Board otherwise determines, be construed as a grantee of option under the Share Option Scheme.

Upon acceptance of the option, the grantee shall pay HK$1.0 to our Company as consideration for the grant.

(c) Maximum number of Shares

(i) Subject to the provisions of sub-paragraph (ii) below:

A. The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 43,380,000 Shares, being 10.0% ("**Scheme Mandate Limit**") of the Shares in issue immediately after completion of the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme) unless our Company obtains a fresh approval from its Shareholders pursuant to paragraphs (ii) and/or (iii) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

B. Our Company may seek an approval from the Shareholders in general meeting to refresh the Scheme Mandate Limit from time to time such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company shall not exceed 10.0% of the Shares in issue as at the date of such Shareholders' approval. Options previously granted under the

Share Option Scheme (including options which are outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme) will not be counted for the purpose of calculating the new limit. Our Company must send a circular containing 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 to the Shareholders.

C. Our Company may seek separate shareholders' approval in general meeting to grant options over and above the Scheme Mandate Limit provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by our Company before such approval is sought and for whom specific approval is then obtained. Our Company must issue a circular containing, among others, 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 to the Shareholders.

(ii) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 30.0% of the Shares in issue from time to time. No option may be granted under the Share Option Scheme and any other share option schemes of our Company if such limit would be exceeded.

(iii) If our Company (or relevant subsidiaries) conducts a share consolidation or subdivision after the 10.0% limit has been approved in general meeting, the maximum number of securities that may be issued upon exercise of all options to be granted under all of the share option schemes of our Company (or relevant subsidiaries) under the 10.0% limit as a percentage of the total number of issued shares at the date immediately before and after such consolidation or subdivision shall be the same.

(d) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme (including both exercised or outstanding options) to each Eligible Person in any 12-month period must not exceed 1.0% of the issued share capital of our Company for the time being (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such Eligible Person and its associates abstaining from voting.

(e) Grant of options to connected persons

(i) Any grant of options under the Share Option Scheme and any other schemes of our Company to a connected person or any of their respective associates must be pre-approved by independent non-executive Directors of our Company (excluding any independent non-executive Director who is the grantee of the options).

(ii) Where any grant of options to a substantial Shareholder or an independent non-executive Director of our Company, 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:

A. representing in aggregate over 0.1% of the Shares in issue of our Company; and

B. having an aggregate value, based on the closing price of the Shares on the date of each grant, in excess of HK$5.0 million;

such proposed grant of options must be approved by Shareholders in general meetings of our Company. Our Company must send a circular to the Shareholders. The grantee of the Option, his associates and all core connected persons of our Company must abstain from voting in favour of the proposed grant of options at such general meeting. Our Company shall comply with the requirements under Rule 13.40, Rule 13.41 and Rule 13.42 of the Listing Rules.

(f) Time of acceptance and exercise of Option

An option may be accepted by an Eligible Person within 15 days from the date of the offer of grant of the option.

Subject to the discretion of the Board who may impose restrictions on the exercise of the option, an option may be exercised one year after the date on which the option is granted and shall expire on the earlier of the last day of (i) a six years period from the date of such grant and (ii) the expiration of the Share Option Scheme.

(g) Subscription price for Shares

The subscription price ("**Subscription Price**") for Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the date of grant of that option, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant of that option; provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange; and (iii) the nominal value of the Shares.

(h) Ranking of Shares

Shares issued upon the exercise of an option shall not carry voting rights until the registration on our Company's register of members of the option holder as the holder thereof. If under the terms of a resolution passed or an announcement made by our Company prior to the date of exercise of an option, a dividend is to be or is proposed to be paid to holders of Shares on the register of members on a date prior to such date of exercise, the Shares to be issued upon such exercise will not be entitled to such dividend. Subject as aforesaid, Shares allotted upon the exercise of an option shall rank equally in all respects with the Shares in issue on the date of such exercise.

(i) Restrictions on the time of grant of Options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board for the approval of our Company's interim, quarterly, half-yearly or annual results (whether or not it is required under the Listing Rules), and (ii) the last date on which our Company must publish its interim, quarterly, half-yearly or annual results announcement under the Listing Rules (whether or not it is required under the Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

The Board may not grant any option to any Eligible Person who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(j) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing from the Adoption Date.

(k) Lapse of Option

If the grantee of an option ceases to be an Eligible Person by reason of:

(i) termination of his employment (if the Eligible Person is an employee of our Company, its subsidiaries or any Invested Entity) as any one or more of the grounds that he has been guilty of misconduct, bankruptcy, insolvency or conviction for a criminal offence or has made any arrangements or composition with his creditors generally;

(ii) death, winding-up or dissolution; or

(iii) voluntary resignation, retirement, expiry of employment contract or termination of employment (if the Eligible Person is an employee of our Company, its subsidiaries or any Invested Entity) on any grounds other than those set out in (a) or (b) above,

then the grantee's outstanding option shall lapse on or before:

(i) in the case of (a) above, on the date of the grantee's termination of employment;

(ii) in the case of (b) above, on the date which is the earlier of 12 months after the grantee so ceases or the expiration of the Option Period (as defined in the Share Option Scheme); and

(iii) in the case of (c) above, on the date which is two months from the date of the grantee's cessation of employment.

(l) Rights on a general offer, a compromise or arrangement

In the event of a general offer, whether by way of take-over, or scheme of arrangement, is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlling the offeror and/or any person acting in association or concert with the offeror), and such offer becomes or is declared unconditional before the expiration of relevant option, a grantee (or his or her legal personal representative(s)) shall be entitled to exercise the option (to the extent not already exercised) at any time within one month after the date on which such offer becomes or is declared unconditional.

In the event of compromise or arrangement between our Company and its Shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies, our Company shall give notice thereof to all option holders on the same date as it dispatches the notice which is sent to each Shareholder or creditor of our Company summoning the meeting to consider such a compromise or arrangement, and thereupon each option holder (his or her personal representative(s)) may by notice in writing to our Company (such notice to be received by our Company not later than seven business days of Hong Kong and the Cayman Islands prior to the proposed general meeting of our Company), accompanied by the remittance for the Subscription Price in respect of the relevant option, exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice provided that the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court and becoming effective and as soon as possible thereafter our Company shall allot and issue such number of Shares to the option holder which falls to be issued on such exercise credited as fully paid and register the option holder as holder of such Shares.

(m) Rights on winding up

In the event that a notice is given by our Company to the Shareholders to convene a general meeting for the purposes of considering and, if thought fit, approving a resolution to voluntarily windup our Company, our Company shall forthwith give notice thereof to all option holders and thereupon, each option holder (or his or her legal personal representative(s)) may by notice in writing to our Company (such notice to be received by our Company not later than seven business days of Hong Kong and the Cayman Islands prior to the proposed general meeting of our Company) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, accompanied by a remittance for the full amount of the aggregate Subscription Price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than one business day of Hong Kong and the Cayman Islands immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the option holders credited as fully paid.

(n) Adjustments to the subscription price

In the event of any reduction, sub-division or consolidation of the share capital of our Company or any rights issue or capitalisation issue, or any distribution of capital assets to Shareholders pro rata, the Subscription Price and/or the number of Shares that should be issued so far as unexercised and/or the subscription price and/or the method of exercise of the option shall be adjusted in such manner as the Board may think fair and reasonable, provided always that (i) an option holder shall have the same proportion of issued share capital of our Company as that to which he was previously entitled before prior to such adjustments; and (ii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of Shares or other securities of our Group as consideration for the acquisition of any assets or business of our Group may not be regarded as a circumstance requiring adjustment. In addition, in respect of any such adjustments, other than any adjustments made on a capitalisation issue, an independent financial adviser, the auditors or legal adviser of our Company must confirm to the Board in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(o) Cancellation of options

Any cancellation of options granted but not exercised must be approved by the Board, with participants and their associates abstaining from voting. New options may be issued to an option holder in place of his cancelled options only if there are available unissued options (excluding the cancelled options) within the limit set out in paragraph c above.

(p) Termination of the Share Option Scheme

The Board may terminate the Share Option Scheme at any time and in such event no further options shall be offered, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

In the event of such termination of the Share Option Scheme, details of the options granted, including options exercised or outstanding, under the Share Option Scheme and options that become void or non-exercisable shall be disclosed in a circular to Shareholders seeking approval of the first new scheme established thereafter.

(q) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(r) Others

Any alternations to the Share Option Scheme in relation to the following areas shall be approved by the Shareholders in general meeting:

(i) any provisions relating to the matters set out in Rule 17.03 of the Listing Rules and the alternation to the terms and conditions will be more favourable to the Eligible Persons;

(ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, except where the alterations take effect automatically under the existing terms of the Share Option Scheme;

(iii) the amended terms of the Share Option Scheme must still comply with the relevant requirements of Chapter 17 of the Listing Rules; or

(iv) 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.

Present status of the Share Option Scheme

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

(a) Approval of the Listing Committee required

The Share Option Scheme is conditional upon (i) the passing of a resolution in writing by the Shareholders adopting the Share Option Scheme; (ii) the Listing Committee granting approval of the listing of and permission to deal in the Shares and any Shares (representing not more than 10.0% of our Company's issued share capital upon listing) falling to be issued pursuant to the exercise of the options under the Share Option Scheme; (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms thereof; and (iv) the commencement of dealings in the Shares on the Stock Exchange.

(b) Application for approval

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the Shares (representing not more than 10.0% of our Company's issued share capital upon listing) which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

2. Taxation and Other Indemnities

Our Controlling Shareholders have entered into a deed of indemnity dated 19 November 2019 with and in favor of our Company (for itself and as trustee for its subsidiaries) whereby our Controlling Shareholders have given indemnities in connection with, among other matters, (i) taxation resulting from income, profits or gains earned, accrued or received on or before the Listing Date, and (ii) any monetary fines, settlements payments and any associated costs and expenses which would be incurred or suffered by our Group in connection with (a) the non-compliance incidents by our Group occurred on or before the Listing Date as set forth in the section headed "Business — Legal Proceedings and Compliance" in this prospectus and (b) arising from or in connection with the implementation of our Reorganisation.

3. Litigation and Estate Duty

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, no member of our Group had been involved in any arbitration, litigation or administrative proceedings or any other claims or disputes of material importance, and no arbitration, litigation or administrative proceedings or claim or dispute of material importance was known to our Directors to be pending or threatened by or against any member of our Group, that could be expected to have a material adverse effect on our reputation, business, results of operations or financial condition.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

The Sole Sponsor has declared its independence pursuant to Rule 3A.07 of the Listing Rules. The Sole Sponsor is entitled to a fee of HK$6.0 million for acting as our sponsor in connection with the Listing.

5. Preliminary Expenses

Our estimated preliminary expenses are approximately US$4,900 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules. Our Directors confirm that, within the two years preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or give or is proposed to be paid, allotted or given to any promoter in connection with the Global Offering and the related transactions described in this prospectus.

7. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current rate charged on each of the purchaser and seller is 0.1% of the consideration of or, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for a grant of representation in respect of holders of Shares whose death occurs on or after 11 February 2006.

(b) Cayman Islands

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

8. Qualification of Experts

The following are the qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Fortune Financial Capital Limited	Licensed to conduct type 6 (advising on corporate finance) regulated activities under the SFO, acting as a Sole Sponsor of the Listing
Deloitte Touche Tohmatsu	Certified Public Accountants
Beijing Deheng Law Offices	Legal adviser to our Company as to the laws of the PRC
RHTLaw Taylor Wessing Vietnam	Legal adviser to our Company as to the laws of Vietnam
Maples and Calder (Hong Kong) LLP	Cayman Islands attorneys-at-law
DLA Piper Singapore Pte. Ltd.	Legal adviser to our Company as to the U.S. trade laws
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

9. Consents of Experts

Each of the experts as referred to in "D. Other Information — 8. Qualification of Experts" in this appendix has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report(s), view(s), and/or letter(s) and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts named above has any shareholding interest in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

10. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance on the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 May 2019 (being the date to which the latest audited consolidated balance sheets of our Group were prepared).

13. Miscellaneous

(a) Our Directors confirm that, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of our Company or any of our subsidiaries had been issued or agreed to be issued or proposed to be fully or partly paid either for cash or a consideration other than cash;

(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;

(iii) no commissions, discounts, brokerages or other special terms had been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and

(iv) no commission had been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries.

(b) Our Directors confirm that, no founder, management or deferred shares, convertible debt securities nor any debentures in our Company or any of our subsidiaries have been issued or agreed to be issued.

(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.

(d) Our Directors confirm that our Company has no outstanding convertible debt securities or debentures.

(e) All necessary arrangements have been made to enable the Shares to be admitted to CCASS for clearing and settlement.

(f) No members of our Group is presently listed on any stock exchange or traded on any trading system, and our Group is not seeking or proposing to seek any listing of, or permission to deal in, the share or loan capital of our Company on any other stock exchange.

(g) There is no arrangement under which future dividends are waived or agreed to be waived.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were: (a) copies of the **WHITE**, **YELLOW** and **GREEN** application forms; (b) the written consents referred to in "Statutory and General Information — D. Other Information — 9. Consents of Experts" in Appendix IV to this prospectus; and (c) copies of the material contracts referred to in "Statutory and General Information -B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Eric Chow & Co. in Association with Commerce & Finance Law Offices at 29/F, 238 Des Voeux Road, 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 and Articles of Association;

(b) the Accountants' Report on historical financial information of our Group for each of the three years ended 31 December 2018 and the five months ended 31 May 2019 and the report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in Appendix I and II to this prospectus, respectively;

(c) the audited consolidated financial statements of the Group for the three years ended 31 December 2018 and the five months ended 31 May 2019;

(d) the PRC legal opinions issued by our PRC Legal Adviser in respect of certain aspects of our Group and our property interests;

(e) the letter of advice prepared by Maples and Calder (Hong Kong) LLP, our Cayman Islands legal adviser, summarising certain aspects of the Cayman company law referred to in Appendix III to this prospectus;

(f) the Vietnam legal opinion issued by our Vietnam Legal Adviser in respect of certain aspects of Vietnam law in relation to our Group;

(g) the U.S. trade laws legal opinion issued by our U.S. Trade Laws Legal Adviser in respect of certain aspects of U.S. trade law in relation to our Group;

(h) the independent industry report issued by Frost & Sullivan, our independent industry consultant;

(i) the Cayman Companies Law;

(j) the material contracts referred to in "Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contracts" in Appendix IV to this prospectus;

(k) the written consents referred to in "Statutory and General Information — D. Other Information — 9. Consents of Experts" in Appendix IV to this prospectus;

(l) the service contracts and letters of appointment referred to in the section headed "Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 1(b). Particulars of service contracts and letters of appointment" in Appendix IV to this prospectus; and

(m) the rules of Share Option Scheme.

迈科管业控股有限公司
MAIKE TUBE INDUSTRY HOLDINGS LIMITED