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# 中國管業集團有限公司 China Pipe Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00380)

## ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors (the “Board”) of China Pipe Group Limited (formerly known as Softpower International Limited) (the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in 2020, are as follows:

### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

		<b>Unaudited</b>	
		<b>For the six months ended 30 June</b>	
		<b>2021</b>	Restated
	<i>Note</i>	<b>HK\$'000</b>	<b>2020</b>
			<b>HK\$'000</b>
<b><i>Continuing operation:</i></b>			
Revenue	2	<b>305,134</b>	222,463
Cost of sales	4	<b>(211,292)</b>	(159,700)
Gross profit		<b>93,842</b>	62,763
Other gains, net	3	<b>661</b>	90
Selling and distribution costs	4	<b>(9,577)</b>	(8,141)
General and administrative expenses	4	<b>(51,598)</b>	(48,277)
Provision for impairment of financial assets	4	<b>-</b>	(144)
Operating profit		<b>33,328</b>	6,291
Finance income	5	<b>2,312</b>	5,125
Finance costs	5	<b>(3,031)</b>	(3,667)
Finance (costs)/income, net	5	<b>(719)</b>	1,458
Profit before income tax		<b>32,609</b>	7,749
Tax expense	6	<b>(5,514)</b>	(1,194)
Profit for the period from continuing operation		<b>27,095</b>	6,555
<b><i>Discontinued operation:</i></b>			
Profit/(loss) for the period from discontinued operation	11	<b>348</b>	(11,408)
Profit/(loss) for the period		<b>27,443</b>	(4,853)

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT (CONTINUED)**  
*For the six months ended 30 June 2021*

		<b>Unaudited</b>	
		<b>For the six months ended 30 June</b>	
		<b>2021</b>	Restated
	<i>Note</i>	<b>HK\$'000</b>	<b>2020</b>
			<b>HK\$'000</b>
Profit/(loss) attributable to:			
Equity holders of the Company		27,552	(1,062)
Non-controlling interests		(109)	(3,791)
		<u>27,443</u>	<u>(4,853)</u>
		<i>HK cents</i>	<i>HK cent</i>
Earnings/(loss) per share attributable to equity holders of the Company	7		
Basic and diluted			
From continuing operation		2.03	0.49
From discontinued operation		0.03	(0.57)
		<u>2.06</u>	<u>(0.08)</u>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend	8	<u>-</u>	<u>-</u>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Unaudited	
	For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
<b>Profit/(loss) for the period</b>	<b>27,443</b>	<b>(4,853)</b>
<b>Other comprehensive income/ (loss):</b>		
<b>Item that may be subsequently reclassified to profit or loss:</b>		
Currency translation differences	205	(222)
Release of exchange reserve upon disposal of subsidiaries	835	-
Other comprehensive income/(loss) for the period, net of tax	1,040	(222)
<b>Total comprehensive income/(loss) for the period</b>	<b>28,483</b>	<b>(5,075)</b>
<b>Total comprehensive income/(loss) attributable to:</b>		
Equity holders of the Company	28,571	(1,252)
Non-controlling interests	(88)	(3,823)
	<b>28,483</b>	<b>(5,075)</b>
<b>Total comprehensive income/(loss) attributable to equity holders of the Company:</b>		
Continuing operation	27,237	6,428
Discontinued operation	1,334	(7,680)
	<b>28,571</b>	<b>(1,252)</b>

There was no tax impact relating to the components of other comprehensive income/(loss) for the six months ended 30 June 2020 and 2021.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2021*

		Unaudited 30 June 2021 <i>HK\$'000</i>	Audited 31 December 2020 <i>HK\$'000</i>
	<i>Note</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,411	3,634
Right-of-use assets		103,962	114,977
Intangible assets		400	426
Loan to a related company	9	77,837	77,706
Rental deposits and other assets	9	6,636	6,524
		191,246	203,267
		191,246	203,267
<b>Current assets</b>			
Inventories		243,603	192,168
Trade receivables	9	149,140	127,476
Deposits, prepayments and other receivables	9	81,771	55,987
Financial assets at fair value through profit or loss		1,731	1,742
Tax recoverable		204	4
Pledged certificate of deposit		10,000	10,000
Pledged bank deposits		36,000	36,000
Cash and bank balances		144,657	189,088
		667,106	612,465
		667,106	612,465
<b>Total assets</b>		<b>858,352</b>	<b>815,732</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2021*

	<b>Unaudited</b>		<b>Audited</b>
	<b>30 June</b>		31 December
	<b>2021</b>		<b>2020</b>
<i>Note</i>	<b>HK\$'000</b>		<b>HK\$'000</b>
<b>EQUITY</b>			
<b>Equity holders</b>			
Share capital	26,645		26,645
Reserves	566,335		537,764
	592,980		564,409
Non-controlling interests	-		(3,187)
<b>Total Equity</b>	<b>592,980</b>		<b>561,222</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities	90,032		98,979
Deferred tax liabilities	1,519		1,508
Other non-current liabilities	1,355		1,527
	92,906		102,014
<b>Current liabilities</b>			
Trade payables, other payables and contract liabilities	92,606	<i>10</i>	71,011
Taxation payable	8,190		2,864
Lease liabilities	20,480		21,637
Borrowings	51,190		56,984
	172,466		152,496
<b>Total liabilities</b>	<b>265,372</b>		<b>254,510</b>
<b>Total equity and liabilities</b>	<b>858,352</b>		<b>815,732</b>
<b>Net current assets</b>	<b>494,640</b>		<b>459,969</b>
<b>Total assets less current liabilities</b>	<b>685,886</b>		<b>663,236</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This condensed consolidated interim financial information has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated interim financial information should be read in conjunction with the audited consolidated annual financial statements for the year ended 31 December 2020, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

Except for described below, the accounting policies adopted are consistent with those used in the audited consolidated annual financial statements for the year ended 31 December 2020.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

#### **Adoption of amendments to standards**

The Group has applied the following amendments to standards for the first time for the annual reporting period commencing 1 January 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, Interest Rate Benchmark Reform – Phase 2  
HKFRS 9 and HKFRS 16

In the current interim period, the Group has applied for the first time the above amendments to standards issued by the HKICPA that are mandatorily effective from 1 January 2021. The adoption of the above amendments to standards do not have a material impact on the Group’s results of operations or financial position.

The Group has not early adopted any other new standards and amendments to standards that have been issued but are not yet effective. The Group is assessing the impact of these new standards and amendments to standards.

## 2. REVENUE AND SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker (“CODM”) that are used to make strategic decisions. The CODM has been identified as the executive directors of the Company. The CODM assesses the performance of the operating segments based on a measure of profit/(loss) attributable to equity holders of the Company.

During the period, the Group has two reportable segments, which are trading of pipes and fittings (“Trading of pipes and fittings”) and manufacture and sale of biomass pellet fuel products (“Biomass pellet fuel products”). The following summary describes the operations in each of the Group’s reportable segments.

Trading of pipes and fittings includes wholesale, retail and logistics operations substantially in Hong Kong and Macau.

Biomass pellet fuel products are contributed by a subsidiary of the Group, 貴州中冠新能源有限公司 (Guizhou Zhongguan New Energy Limited\*), which manufactures and sells biomass pellet fuel products in the PRC. The Group discontinued biomass pellet fuel products segment in 2020 and the disposal was completed in March 2021. The results of this segment were presented as discontinued operation for the six months ended 30 June 2021 and 30 June 2020. Details of this discontinued operation are set out in Note 11.

\* *For identification purpose only*

## 2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment information for the six months ended 30 June 2021 and 2020 are as follows :

Unaudited					
For the six months ended 30 June 2021					
Reportable segments					
	Continuing operation	Discontinued operation	Total reportable segments	Unallocated	Total
	Trading of pipes and fittings HK\$'000	Biomass pellet fuel products HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	305,134	-	305,134	-	305,134
Results of reportable segments	43,106	348	43,454	-	43,454
Reconciliation of results of reportable segments to profit for the period					
Results of reportable segments					
Unallocated income					19
Unallocated expenses					(9,797)
<b>Operating profit</b>					<b>33,676</b>
Finance income					2,312
Finance costs					(3,031)
<b>Profit before income tax</b>					<b>32,957</b>
Tax expense					(5,514)
<b>Profit for the period</b>					<b>27,443</b>
<b>Other segment information:</b>					
Depreciation of property, plant and equipment	1,441	-	1,441	17	1,458
Depreciation of right-of-use assets	12,281	-	12,281	-	12,281
Amortisation of intangible assets	26	-	26	-	26
Reversal of impairment of inventories, net	(1,048)	-	(1,048)	-	(1,048)



## 2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

Unaudited  
For the six months ended 30 June 2020

	Reportable segments				
	Continuing operation Trading of pipes and fittings <i>HK\$'000</i>	Discontinued operation Biomass pellet fuel products <i>HK\$'000</i>	Total reportable segments <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Revenue</b>	222,463	230	222,693	-	222,693
<b>Results of reportable segments</b>	15,570	(11,408)	4,162	-	4,162
<b>Reconciliation of results of reportable segments to loss for the period</b>					
<b>Results of reportable segments</b>					
Unallocated loss					(703)
Unallocated expenses					(8,576)
<b>Operating loss</b>					(5,117)
Finance income					5,125
Finance costs					(3,667)
<b>Loss before income tax</b>					(3,659)
Tax expense					(1,194)
<b>Loss for the period</b>					(4,853)
<b>Other segment information:</b>					
Depreciation of property, plant and equipment	1,919	1,064	2,983	17	3,000
Depreciation of right-of-use assets	13,137	-	13,137	-	13,137
Amortisation of intangible assets	25	-	25	-	25
Net gain on disposal of property, plant and equipment	-	15	15	-	15
Reversal of impairment of inventories, net	(650)	-	(650)	-	(650)
Provision for impairment of financial assets	144	-	144	-	144
Provision for impairment of property, plant and equipment	-	9,525	9,525	-	9,525

## 2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

The segment assets and liabilities as at 30 June 2021 and 31 December 2020 are as follows:

	Reportable segments			
	Trading of pipes and fittings <i>HK\$'000</i>	Biomass pellet fuel products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 30 June 2021</b>				
Non-current assets	113,391	-	77,855	191,246
Current assets	636,183	-	30,923	667,106
Total Assets	<b>749,574</b>	<b>-</b>	<b>108,778</b>	<b>858,352</b>
Non-current liabilities	(92,906)	-	-	(92,906)
Current liabilities	(169,252)	-	(3,214)	(172,466)
Total Liabilities	<b>(262,158)</b>	<b>-</b>	<b>(3,214)</b>	<b>(265,372)</b>

	Reportable segments			
	Trading of pipes and fittings <i>HK\$'000</i>	Biomass pellet fuel products <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>As at 31 December 2020</b>				
Non-current assets	125,526	-	77,741	203,267
Current assets	582,765	642	29,058	612,465
Total Assets	<b>708,291</b>	<b>642</b>	<b>106,799</b>	<b>815,732</b>
Non-current liabilities	(102,014)	-	-	(102,014)
Current liabilities	(144,186)	(5,132)	(3,178)	(152,496)
Total Liabilities	<b>(246,200)</b>	<b>(5,132)</b>	<b>(3,178)</b>	<b>(254,510)</b>

## 2. REVENUE AND SEGMENT INFORMATION (CONTINUED)

### Geographical information

The Group is domiciled in Hong Kong. The Group's revenues from external customers by geographical location is detailed below:

	Revenue Unaudited For the six months ended 30 June	
	2021 HK\$'000	Restated 2020 HK\$'000
Hong Kong	295,928	199,006
Macau	9,206	23,457
Continuing operation	305,134	222,463
Discontinued operation	-	230
	<b>305,134</b>	<b>222,693</b>

The Group's non-current assets by geographical location are detailed below:

	Unaudited 30 June 2021 HK\$'000	Audited 31 December 2020 HK\$'000
Hong Kong	190,034	202,052
Mainland China	1,212	1,215
	<b>191,246</b>	<b>203,267</b>

## 3. OTHER GAINS, NET

	Unaudited For the six months ended 30 June	
	2021 HK\$'000	Restated 2020 HK\$'000
Net exchange gain/(loss)	655	(446)
Loss on financial assets at fair value through profit or loss	(25)	(71)
Dividend income from financial assets at fair value through profit or loss	31	38
Sundry income	-	569
	<b>661</b>	<b>90</b>

#### 4. EXPENSES BY NATURE

Operating profit/(loss) is arrived at after charging/(crediting):

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2021</b>	Restated
	<b>HK\$'000</b>	2020
		<b>HK\$'000</b>
Cost of inventories sold	<b>205,517</b>	156,417
Auditor's remuneration	<b>513</b>	517
Depreciation of property, plant and equipment	<b>1,458</b>	1,936
Depreciation of right-of-use assets	<b>12,281</b>	13,137
Amortisation of intangible assets	<b>26</b>	25
Employee benefit expenses (including directors' emoluments)	<b>34,137</b>	29,792
Short-term and low-value lease expenses	<b>718</b>	207
Provision for impairment of financial assets	<b>-</b>	144
Reversal of impairment of inventories, net	<b>(1,048)</b>	(650)
Other expenses	<b>18,865</b>	14,737
	<b>272,467</b>	216,262
Representing:		
Cost of sales	<b>211,292</b>	159,700
Selling and distribution costs	<b>9,577</b>	8,141
General and administrative expenses	<b>51,598</b>	48,277
Provision for impairment of financial assets	<b>-</b>	144
	<b>272,467</b>	216,262

#### 5. FINANCE COSTS/(INCOME), NET

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2021</b>	2020
	<b>HK\$'000</b>	<b>HK\$'000</b>
Bank interest income	<b>(187)</b>	(1,045)
Interest income on loan to a related company	<b>(2,125)</b>	(4,080)
Finance income	<b>(2,312)</b>	(5,125)
Interest expense on bank borrowings wholly repayable within one year	<b>676</b>	895
Interest on lease liabilities	<b>2,355</b>	2,772
Finance costs	<b>3,031</b>	3,667
	<b>719</b>	(1,458)

## 6. TAX EXPENSE

	Unaudited For the six months ended 30 June	
	2021	Restated 2020
	HK\$'000	HK\$'000
Current taxation:		
Hong Kong profits tax	5,605	1,187
Overseas tax	52	16
Over provision in prior years	(155)	-
Deferred taxation	12	(9)
Tax expense	<u>5,514</u>	<u>1,194</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

## 7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share is based on the profit/(loss) attributable to equity holders of the Company and weighted average number of ordinary shares with adjustments where applicable as follows:

	Unaudited For the six months ended 30 June	
	2021	2020
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company from continuing operation	27,095	6,555
Profit/(loss) attributable to equity holders of the Company from discontinued operation	457	(7,617)
Profit/(loss) attributable to equity holders of the Company for the purpose of basic earnings/(loss) per share	<u>27,552</u>	<u>(1,062)</u>
<b>Number of shares</b>	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>1,332,266</u>	<u>1,333,270</u>

Diluted earnings/(loss) per share for the six months ended 30 June 2021 and 2020 equal basic earnings/(loss) per share as there were no dilutive potential ordinary shares during the six months ended 2021 and 2020.

## 8. DIVIDEND

The Board does not declare interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

## 9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2021 <i>HK\$'000</i>	Audited 31 December 2020 <i>HK\$'000</i>
Trade receivables	149,250	127,586
Less: loss allowance	(110)	(110)
Trade receivables – net	<u>149,140</u>	<u>127,476</u>
Prepayments	77,460	50,576
Other receivables, deposits and other assets	5,848	6,988
Rental deposits	6,250	6,242
Less: loss allowance	(1,151)	(1,295)
	<u>88,407</u>	<u>62,511</u>
Loan to a related company	77,961	77,830
Less: loss allowance	(124)	(124)
	<u>77,837</u>	<u>77,706</u>
Total of trade and other receivables, deposits and prepayments	<b>315,384</b>	267,693
Less: included in non-current assets		
Rental deposits and other assets	(6,636)	(6,524)
Loan to a related company	(77,837)	(77,706)
Included in current assets	<b><u>230,911</u></b>	<b><u>183,463</u></b>

The Group generally grants credit period of 60-120 days to its customers for its trading of pipes and fittings operation. The ageing analysis of the trade receivables based on the due date is as follows:

	Unaudited 30 June 2021 <i>HK\$'000</i>	Audited 31 December 2020 <i>HK\$'000</i>
Within credit period	97,612	83,145
1 to 30 days	37,502	27,323
31 to 60 days	9,641	11,345
61 to 90 days	2,533	3,253
91 to 120 days	751	417
Over 120 days	1,211	2,103
	<u>149,250</u>	<u>127,586</u>

## 10. TRADE PAYABLES, OTHER PAYABLES AND CONTRACT LIABILITIES

	<b>Unaudited 30 June 2021 HK\$'000</b>	<b>Audited 31 December 2020 HK\$'000</b>
Trade payables	60,475	37,237
Contract liabilities	15,729	12,589
Accrued expenses and other payables	16,402	21,185
	<b>92,606</b>	<b>71,011</b>

The ageing analysis of the Group's trade payables, based on the invoice date, is as follows:

	<b>Unaudited 30 June 2021 HK\$'000</b>	<b>Audited 31 December 2020 HK\$'000</b>
Within 30 days	52,040	29,186
31 to 60 days	6,213	4,183
61 to 90 days	1,963	2,058
Over 90 days	259	1,810
	<b>60,475</b>	<b>37,237</b>

## 11. DISCONTINUED OPERATION

On 24 March 2021, the Group completed the disposal of the entire equity interest in Guizhou Zhongguan Industry Development Limited\* (貴州中冠產業發展有限公司) holding 66.7% interests of Guizhou Zhongguan New Energy Limited\*(貴州中冠新能源有限公司) which was engaged in manufacturing and sale of biomass pellet fuel products in the PRC.

The disclosures relating to the discontinued operation for the six months ended 30 June 2020 has been re-presented.

Analysis of the result of discontinued operation is as follows:

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	-	230
Cost of sales	<b>(278)</b>	(1,345)
Gross loss	<b>(278)</b>	(1,115)
Other gains, net	-	15
Selling and distribution costs	<b>(18)</b>	(71)
General and administrative expenses	<b>(48)</b>	(1,012)
Provision for impairment of property, plant and equipment	-	(9,525)
Operating loss	<b>(344)</b>	(11,708)
Finance income, net	-	-
Loss before income tax	<b>(344)</b>	(11,708)
Tax credit	-	300
Loss after income tax	<b>(344)</b>	(11,408)
Gain on disposal of a subsidiary	<b>692</b>	-
Profit/(loss) for the period from discontinued operation	<b>348</b>	(11,408)
Attributable to:		
Equity holders of the Company	<b>457</b>	(7,617)
Non-controlling interests	<b>(109)</b>	(3,791)
	<b>348</b>	(11,408)

	<b>Unaudited</b>	
	<b>For the six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating activities cash flows	<b>(16)</b>	(127)
Investing activities cash flows	-	57
Financing activities cash flows	-	22
	<b>(16)</b>	(48)

\* For identification purpose only



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 June 2021, the Group recorded revenue from the continuing operation of approximately HK\$305.1 million (2020: HK\$222.5 million), an increase of 37.1% as compared to the same period in 2020. The profit attributable to equity holders of the Company from the continuing and discontinued operations for the six months ended 30 June 2021 was approximately HK\$27.6 million, as compared to a net loss attributable to equity holders of the Company of approximately HK\$1.1 million for the same period in 2020. The Group's performance improved following the discontinuation of biomass pellet fuel products segment in last year and the disposal of all its interests in Guizhou Industry Development Limited (貴州產業發展有限公司) during the period.

The basic earnings per share from continuing operation for the six months ended 30 June 2021 was approximately HK2.03 cents as compared to basic earnings per share of approximately HK0.49 cent for the six months ended 30 June 2020.

### Business Review

The Group is a leading provider to the construction sector offering a wide range of pipe (including copper tube, ductile iron and steel pipes) related products, fittings, comprehensive services and solutions to the contractors, designers, consultants and government agencies in Hong Kong and Macau.

As mentioned in the 2020 annual report, the Group discontinued the biomass pellet fuel products segment and the disposal was completed in March 2021. The Group was no longer impacted by the provision for impairment of property, plant and equipment of this segment and its unsatisfactory performance. During the current period, the Group remained on track to focus on the core business of pipes and fittings business segment.

The COVID-19 pandemic affecting economies across the world lingered for over one year. The uncertain economic environment has negatively impacted many businesses in varying degrees in Hong Kong. We were fortunate that the impact of COVID-19 on our business was relatively lower. In the first half of 2021, the spread of COVID-19 in Hong Kong was contained. Some anti-epidemic control measures were implemented in construction sites, reducing the risk of a recurrence of the severe disruption in early 2020. The construction sector gradually recovered. A recovery in economic activities will stimulate the demand for our products.

Against this backdrop, the Group recorded growth in revenue for the six months ended 30 June 2021 as compared to the same period last year. The increment was mainly attributable to the increase in supplying of pipes and fittings to our customers to accelerate the progress of on-going projects which were delayed last year.

In the second half of the year, we continue to weather numerous challenges in the operating environment. The Chinese Government canceled the export tax rebates for most iron and steel products starting on 1 May 2021. This resulted in a higher cost for our steel-related pipes and fittings products as China's factories shifted the costs to us by increasing the price. Due to the intense market competition in Hong Kong, it is hard for us to shift the corresponding costs to our customers. Against this backdrop, it will squeeze our profit margin. However, we will continue navigating this challenge. In addition, we will continue to source the products from different countries and provide a stable supply of pipes and fittings to our customers.

## **Operation Review**

The Group's selling and distribution costs from continuing operation increased 18.5% to HK\$9.6 million for the six months ended 30 June 2021 (corresponding period of 2020: HK\$8.1 million), mainly due to the increase in sales commission, direct logistic staff costs sales, consultancy fee and transportation costs about HK\$1.5 million in tandem with the increase in sales and the business activities returned to normal.

The Group's general and administrative expenses from continuing operation increased by 6.8% to HK\$51.6 million for six months ended 30 June 2021 (corresponding period of 2020: HK\$48.3 million). Such increase was mainly due to the increase in staff costs, products testing fees and various expenses about HK\$4.2 million as a result of the business activities resumed to normal. The increase in expenses was partially offset by the decrease in depreciation of property, plant and equipment, short-term and low-value lease expenses and depreciation of right-of-use assets of approximately HK\$0.9 million.

For the six months ended 30 June 2021, finance income which was mainly from a loan to a related party, decreased by 48.8% from HK\$4.1 million in 2020 to HK\$2.1 million in 2021 as the downward adjustment of the interest rate of the related party in last year. In addition, the bank interest income was also decreased as the saving interest rate decreased. Finance costs mainly consisted of the interest expenses on bank borrowings and lease liabilities. During the period under review, the finance costs were HK\$3.0 million (corresponding period of 2020: HK\$3.7 million), representing a decrease by about 18.9% over last corresponding period. Such decrease was mainly attributable the decrease in finance costs from lease liabilities and the lower bank interest rates. As finance costs outpaced income, we recorded a net finance costs of HK\$0.7 million (corresponding period of 2020: net finance income of HK\$1.5 million).

## **PROSPECTS**

Looking forward, although COVID-19 pandemic presented challenges to the operating environment in Hong Kong, we stay positive about the prospect of the construction industry in Hong Kong. We expect that we will benefit from the Hong Kong Government's initiatives to increase the housing supply and infrastructure projects. Whilst we are mindful of the challenges in the second half of the year, we remain cautiously optimistic about the construction market outlook in Hong Kong.

## **APPRECIATION**

We would like to take this opportunity to express our gratitude to the management and staff of the Group for their dedication and commitment. Furthermore, we would also like to offer our appreciation to our valued shareholders, banks and business partners for their continued trust and support.

## **LIQUIDITY AND CAPITAL RESOURCES ANALYSIS**

As at 30 June 2021, the cash and bank balances of the Group were approximately HK\$180.7 million (31 December 2020: HK\$225.1 million) including pledged bank deposits amounting to approximately HK\$36.0 million (31 December 2020: HK\$36.0 million). Basically the Group's working capital requirement is financed by its internal resources and banking facilities. The Group believes that funds generated from operations and the available banking facilities will enable the Group to meet its future working capital requirements.

As at 30 June 2021, the Group had aggregate banking facilities of trade finance of approximately HK\$267.3 million (31 December 2020: HK\$267.3 million), of which approximately HK\$55.3 million (31 December 2020: HK\$61.0 million) was utilised. The Group's total borrowings stood at approximately HK\$51.2 million (31 December 2020: HK\$57.0 million), and the entire amount of borrowings for both periods will mature within one year. The entire amount of borrowings outstanding as at 30 June 2021 was HK\$51.2 million (31 December 2020: HK\$57.0 million). 26% (31 December 2020: 37%) and 74% (31 December 2020: 63%) of the borrowings were subject to floating and fixed rates respectively.

The gearing ratio as measured by total bank borrowings to total equity was approximately 8.6% as at 30 June 2021 (31 December 2020: 10.2%). As at 31 December 2020 and 30 June 2021, the entire amount of the Group's borrowings was denominated in Hong Kong dollars.

The Group conducts its business transactions mainly in Hong Kong dollar, Macau Pataca, Renminbi and United States dollar. In order to manage foreign exchange risk, the Group has been closely monitoring its foreign currency exposure and will arrange for any hedging facilities if necessary.

### **CHARGE ON ASSETS**

As at 30 June 2021, certain bank deposits and certificate of deposit held by subsidiaries of the Group with an aggregate carrying amounts of approximately HK\$36.0 million (31 December 2020: HK\$36.0 million) and HK\$10.0 million (31 December 2020: HK\$10.0 million) respectively were pledged to banks for banking facilities.

### **CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 30 June 2021 (31 December 2020: Nil).

### **CAPITAL COMMITMENTS**

As at 30 June 2021, the Group had capital commitments of HK\$796,000 (31 December 2020: HK\$1,751,000) and HK\$249,000 (31 December 2020: Nil) in respect of Enterprise Resources Planning system and the acquisition of forklifts respectively contracted for but not provided in the consolidated financial statements.

### **STAFF AND REMUNERATION POLICY**

As at 30 June 2021, the Group employed a total of 163 employees (31 December 2020: 168). Total employee benefit expenses for the period ended 30 June 2021 was approximately HK\$ 34.1 million (2020: HK\$29.8 million).

Remuneration policy is reviewed annually and certain staff members are entitled to sales commission. In addition to the basic salaries and contributions to the mandatory provident fund, the Group also pays discretionary bonus and provides staff with other benefits including medical scheme for Hong Kong employees. The Group contributes to an employee pension scheme established by the PRC Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in Mainland China. The Group adopted a share option scheme for the purpose of providing incentives and rewards to eligible directors and employees of the Group to recognise their contribution to the result of the Group.

## **INTERIM DIVIDEND**

The Board does not declare interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

## **COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix 14 of the Listing Rules of Stock Exchange throughout the period.

## **REVIEW BY AUDIT COMMITTEE**

The condensed consolidated interim financial information for the six months ended 30 June 2021 has not been audited nor reviewed by the Company's auditor, PricewaterhouseCoopers, but this report has been reviewed by the audit committee of the Company.

The audit committee has reviewed with management the accounting policies and practices adopted by the Group and financial reporting matters including the review of the unaudited condensed consolidated financial information for the period. The audit committee of the Company currently consists of Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen and Mr. Guan Zhiqiang as independent non-executive directors.

## **COMPLIANCE WITH MODEL CODE OF LISTING RULES**

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry with the directors of the Company, all directors confirmed that they have fully complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2021.

## **PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT**

This results announcement is published on the website of the Company at [www.chinapipegroup.com](http://www.chinapipegroup.com) and the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk). The 2021 interim report of the Company will be available at the website of the Company and the website of the Stock Exchange and despatched to shareholders of the Company in due course.

By Order of the Board  
**China Pipe Group Limited**  
**Lai Fulin**  
*Chairman*

Hong Kong, 25 August 2021

*As at the date of this announcement, the Board consists of Mr. Lai Fulin and Mr. Yu Ben Ansheng as executive directors; and Mr. Wong Yee Shuen, Wilson, Mr. Chen Wei Wen and Mr. Guan Zhiqiang as independent non-executive directors.*