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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 2024

The board of directors (the “Board”) of China Pipe Group 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 2024, together with the comparative figures for the corresponding period in 2023, are as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2024

	Note	Unaudited	
		For the six months ended 30 June	
		2024	2023
		HK\$'000	HK\$'000
Revenue	2	374,299	341,260
Cost of sales	4	(260,622)	(247,396)
Gross profit		113,677	93,864
Other gains, net	3	285	1,991
Selling and distribution costs	4	(11,269)	(10,881)
General and administrative expenses	4	(58,288)	(50,576)
(Provision for)/reversal of impairment of financial assets	4	(3,411)	61
Operating profit		40,994	34,459
Finance income	5	7,543	6,075
Finance costs	5	(3,255)	(3,177)
Finance income, net	5	4,288	2,898
Profit before income tax		45,282	37,357
Income tax expense	6	(7,884)	(5,711)
Profit for the period attributable to equity holders of the Company		37,398	31,646
Earnings per share		HK cents	HK cents
Basic and diluted	7	2.81	2.38
Dividend	8	-	-

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Profit for the period	37,398	31,646
Other comprehensive loss:		
Item that may be subsequently reclassified to profit or loss:		
Currency translation differences	<u>(169)</u>	<u>(274)</u>
Other comprehensive loss for the period, net of tax	<u>(169)</u>	<u>(274)</u>
Total comprehensive income for the period, net of tax attributable to equity holders of the Company	<u>37,229</u>	<u>31,372</u>

There was no tax impact relating to the components of other comprehensive income for the six months ended 30 June 2023 and 2024.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2024

		Unaudited 30 June 2024 <i>HK\$'000</i>	Audited 31 December 2023 <i>HK\$'000</i>
	<i>Note</i>		
ASSETS			
Non-current assets			
Property, plant and equipment		10,919	11,261
Right-of-use assets		61,423	72,787
Intangible assets		247	273
Loan to a related company	9	78,267	78,312
Loan to a related party	9	5,000	-
Rental deposits and other assets	9	7,249	7,157
		163,105	169,790
		163,105	169,790
Current assets			
Inventories		216,297	217,326
Trade receivables	9	202,876	187,334
Deposits, prepayments and other receivables	9	75,986	98,578
Financial assets at fair value through profit or loss		1,521	1,541
Tax recoverable		43	316
Pledged bank deposits		46,000	46,000
Restricted bank balances		1,077	1,106
Cash and bank balances		266,216	228,138
		810,016	780,339
		810,016	780,339
Total assets		973,121	950,129

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

As at 30 June 2024

	Unaudited	Audited
	30 June	31 December
	2024	2023
<i>Note</i>	HK\$'000	HK\$'000
EQUITY		
Equity holders		
Share capital	26,645	26,645
Reserves	740,365	703,136
Total equity	767,010	729,781
LIABILITIES		
Non-current liabilities		
Lease liabilities	44,808	56,794
Deferred tax liabilities	2,876	2,859
Other non-current liabilities	482	554
	48,166	60,207
Current liabilities		
Trade payables, other payables and contract liabilities	59,224	68,098
Taxation payable	10,228	4,357
Lease liabilities	25,518	25,518
Borrowings	62,975	62,168
	157,945	160,141
Total liabilities	206,111	220,348
Total equity and liabilities	973,121	950,129
Net current assets	652,071	620,198
Total assets less current liabilities	815,176	789,988

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “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 2023, 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 2023.

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 2024:

Amendments to HKAS 1	Classification of Liabilities as Current and Non-current
Amendments to HKAS 1	Non-current Liabilities with Covenants
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback
HKAS 7 and HKFRS 7 (Amendments)	Supplier Finance Arrangements
HK Int 5 (Revised)	Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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 2024. 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 amendments to standards that have been issued but are not yet effective. The Group is assessing the impact of these amendments to standards.

2. REVENUE AND SEGMENT INFORMATION

The Executive Directors of the Company have been identified as the chief operating decision-maker (“CODM”). Management determines the operating segments based on the Group’s internal reports, which are then submitted to the CODM for performance assessment and resources allocation.

The Executive Directors assess the performance of the operating segment based on a measure of profit before income tax and regard there to be only one operating segment – trading of construction materials, mainly pipes and fittings. Accordingly, segment disclosures are not presented.

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

The revenue from contracts with customers recognised for the six months ended 30 June 2024 and 2023 are trading of construction materials, mainly pipes and fittings, all of which were recognised at a point in time.

As 30 June 2024 and 31 December 2023, the Group has only one reportable segment. Accordingly, no segment assets and liabilities analysis is presented.

Geographical information

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

	Revenue Unaudited For the six months ended 30 June	
	2024 HK\$'000	2023 HK\$'000
Hong Kong	351,710	299,280
Macau	21,545	38,167
Mainland China	1,044	3,813
	<u>374,299</u>	<u>341,260</u>

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

	Unaudited 30 June 2024 HK\$'000	Audited 31 December 2023 HK\$'000
Hong Kong	161,905	168,445
Macau	145	257
Mainland China	1,055	1,088
	<u>163,105</u>	<u>169,790</u>

3. OTHER GAINS, NET

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Net exchange gain	264	1,200
Loss on financial assets at fair value through profit or loss	(20)	(2)
Net gain on disposal of property, plant and equipment	-	11
Dividend income from financial assets at fair value through profit or loss	41	37
Hong Kong Government grants	-	745
	<u>285</u>	<u>1,991</u>

4. EXPENSES BY NATURE

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

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	HK\$'000	HK\$'000
Cost of inventories sold	255,663	245,847
Amortisation of intangible assets	26	26
Auditor's remuneration	679	639
Depreciation of property, plant and equipment	1,558	781
Depreciation of right-of-use assets	12,231	11,664
Employee benefit expenses (including directors' emoluments)	39,572	34,554
Short-term and low-value lease expenses	201	217
Provision for/(reversal of) impairment of financial assets	3,411	(61)
Reversal of inventories, net	(593)	(2,172)
Other expenses	20,842	17,297
	<u>333,590</u>	<u>308,792</u>
Representing:		
Cost of sales	260,622	247,396
Selling and distribution costs	11,269	10,881
General and administrative expenses	58,288	50,576
Provision for/(reversal of) impairment of financial assets	3,411	(61)
	<u>333,590</u>	<u>308,792</u>

5. FINANCE INCOME, NET

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	5,290	3,838
Other interest income	2,253	2,237
Finance income	<u>7,543</u>	<u>6,075</u>
Interest expense on bank borrowings	(1,687)	(1,320)
Interest expenses on lease liabilities	<u>(1,568)</u>	<u>(1,857)</u>
Finance costs	<u>(3,255)</u>	<u>(3,177)</u>
	<u>4,288</u>	<u>2,898</u>

6. INCOME TAX EXPENSE

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
Hong Kong profits tax	7,843	4,979
Overseas tax	23	-
Under provision in prior years	1	-
Deferred taxation	<u>17</u>	<u>732</u>
Income tax expense	<u>7,884</u>	<u>5,711</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2023: 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 PER SHARE

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

	Unaudited	
	For the six months ended 30 June	
	2024	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to equity holders of the Company for the purpose of basic earnings per share	37,398	31,646
Number of shares	Thousands	Thousands
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,332,266	1,332,266

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the Company's share options. Diluted earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding for the six months ended 30 June 2024 and 2023.

8. DIVIDEND

The Board of the directors of the Company ("Board") does not declare interim dividend for the six months ended 30 June 2024 (six months ended 30 June 2023: Nil).

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2024 <i>HK\$'000</i>	Audited 31 December 2023 <i>HK\$'000</i>
Trade receivables	207,603	188,649
Less: loss allowance	(4,727)	(1,315)
Trade receivables – net	<u>202,876</u>	<u>187,334</u>
Prepayments	1,257	1,823
Loan to a related party	5,000	-
Rental deposits	6,494	6,510
Other receivables, deposits and other assets	75,514	97,432
Less: loss allowance	(30)	(30)
	<u>88,235</u>	<u>105,735</u>
Loan to a related company	78,391	78,436
Less: loss allowance	(124)	(124)
	<u>78,267</u>	<u>78,312</u>
Total of trade and other receivables, deposits and prepayments	369,378	371,381
Less: included in non-current assets		
Rental deposits and other assets	(7,249)	(7,157)
Loan to a related party	(5,000)	-
Loan to a related company	(78,267)	(78,312)
Included in current assets	<u>278,862</u>	<u>285,912</u>

The Group generally grants credit period of 60 to 90 days to its customers for its trading of pipes and fittings operation. The ageing analysis of the trade receivables based on the invoice date is as follows:

	Unaudited 30 June 2024 <i>HK\$'000</i>	Audited 31 December 2023 <i>HK\$'000</i>
Within 30 days	60,433	53,244
31 to 60 days	56,208	51,667
61 to 90 days	47,729	41,352
91 to 120 days	28,640	22,528
Over 120 days	14,593	19,858
	<u>207,603</u>	<u>188,649</u>

10. TRADE PAYABLES, OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited 30 June 2024 HK\$'000	Audited 31 December 2023 HK\$'000
Trade payables	29,785	30,144
Contract liabilities	17,562	17,798
Accrued expenses and other payables	11,877	20,156
	59,224	68,098

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

	Unaudited 30 June 2024 HK\$'000	Audited 31 December 2023 HK\$'000
Within 30 days	23,450	23,600
31 to 60 days	3,608	2,190
61 to 90 days	1,160	3,140
Over 90 days	1,567	1,214
	29,785	30,144

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the period ended 30 June 2024, the Group's revenue amounted to around HK\$374.3 million, a 9.7% increase from the same period in 2023 of HK\$341.3 million. The profit attributable to equity holders of the Company for the six months ended 30 June 2024 was approximately HK\$37.4 million (2023: HK\$31.6 million), representing an increase of 18.4% over the same period in 2023 as the overall revenue and gross margin increase.

The basic earnings per share for the six months ended 30 June 2024 was approximately HK2.81 cents as compared to basic earnings per share of approximately HK2.38 cents for the six months ended 30 June 2023.

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.

During the period ended 30 June 2024, the Group recorded an increase in revenue of 9.7% to HK\$374.3 million. This was attributable to the Hong Kong Government's housing policies to increase the supply public housing and infrastructure project investment. Benefiting from the ongoing public housing and infrastructure projects, the performance of the Group remained strong.

The Group has successfully launched some new products which enhanced our product coverage. We secured some orders during the period under review. These new offerings have been well-received by customers. Additionally, the Group's focus on sourcing new products and quality has strengthened its competitive position in the market.

For the six months ended 30 June 2024, the Group maintained a stable growth as compared to the corresponding period of last year. The Group saw some large-scale projects were in full swing including infrastructure projects such as expansion of the airport and Central Kowloon Route. This resulted in steady growth in revenue and profit in the first half of the year.

The Group performed well in the first half of the year. However, the Group, like many others, faced challenges in attracting and retaining skilled labor. In addition, the rising of materials costs put strain on profit margins. However, we believed that we will continue to achieve good results in the second half of the year.

Operation Review

The Group's selling and distribution costs increased 3.7% to HK\$11.3 million for the six months ended 30 June 2024 (corresponding period of 2023: HK\$10.9 million). The increase was mainly due to the increase in sales commission, direct logistic staff costs and motor vehicle running expenses of HK\$1.2 million which was partially offset by the decrease in transportation costs and promotion expenses of approximately HK\$0.8 million.

The Group's general and administrative expenses increased by 15.2% to HK\$58.3 million for the six months ended 30 June 2024 (corresponding period of 2023: HK\$50.6 million). The increase was mainly due to the increase in staff costs, depreciation, testing fee, depreciation on

right-of-use assets, rates and building services fees, motor vehicle running expenses and professional fees of about HK\$7.7 million.

For the six months ended 30 June 2024, finance income which was mainly from a loan to a related party and bank deposits interest income, increased by 23.0% to HK\$7.5 million (corresponding period of 2023: HK\$6.1 million). The increase in finance income was attributable to the bank interest income increase as the saving interest rate increased. Finance costs mainly consisted of the interest expenses on bank borrowings and lease liabilities. During the period under review, the finance costs were HK\$3.3 million (corresponding period of 2023: HK\$3.2 million), representing an increase by about 3.1% over last corresponding period. Such increase was mainly attributable to the increase in interest rates on bank borrowings. As finance income outpaced costs during the period, we recorded net finance income of HK\$4.3 million (corresponding period of 2023: HK\$2.9 million).

PROSPECTS

Looking ahead the Group is optimistic about the outlook of the construction materials business in Hong Kong. Our business will be driven by several major infrastructure and development projects planned for the coming years. Given the large-scale projects underway, including Kai Tak New Acute Hospital, Third Airport Runway and Central Kowloon Route, the demand for our pipe and fittings is likely to be strong in the second half of the year.

Undoubtedly, in a challenging environment full of uncertainty, we will face challenge from the continued weak real estate market. The Group will stay vigilant and adopt a prudent strategy. We will safeguard our existing business foundation and explore more new products to diversify our product portfolio.

APPRECIATION

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

LIQUIDITY AND CAPITAL RESOURCES ANALYSIS

As at 30 June 2024, the cash and bank balances of the Group were approximately HK\$313.3 million (31 December 2023: HK\$275.2 million) including pledged bank deposits amounting to approximately HK\$46.0 million (31 December 2023: HK\$46.0 million) and restricted bank balances of approximately HK\$1.1 million (31 December 2023: HK\$1.1 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 2024, the Group had aggregate banking facilities of trade finance of approximately HK\$312.3 million (31 December 2023: HK\$312.3 million), of which approximately HK\$82.5 million (31 December 2023: HK\$66.6 million) was utilised. The Group's total borrowings stood at approximately HK\$63.0 million (31 December 2023: HK\$62.2 million), and the entire amount of borrowings for both periods will mature within one year. 17% (31 December 2023: 36%) and 83% (31 December 2023: 64%) 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 8.2% as at 30 June 2024 (31 December 2023: 8.5%). As at 30 June 2024 and 31 December 2023, 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 2024, certain bank deposits held by subsidiaries of the Group with an aggregate carrying amounts of approximately HK\$46.0 million (31 December 2023: HK\$46.0 million) were pledged to banks for banking facilities.

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2024 (31 December 2023: Nil).

CAPITAL COMMITMENTS

As at 30 June 2024, the Group did not have capital commitment contracted for but not provided for in consolidated financial statements.

STAFF AND REMUNERATION POLICY

As at 30 June 2024, the Group employed a total of 163 full-time employees (31 December 2023: 164). Total employee benefit expenses for the period ended 30 June 2024 was approximately HK\$39.6 million (2023: HK\$34.6 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 2024 (six months ended 30 June 2023: 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.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code as stated in Appendix C1 of the Rules Governing the Listing of Securities on Stock Exchange (the "Listing Rules") throughout the period.

REVIEW BY AUDIT COMMITTEE

The condensed consolidated interim financial information for the six months ended 30 June 2024 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, Mr. Guan Zhiqiang and Mr. Wang Chaolong as independent non-executive directors.

COMPLIANCE WITH MODEL CODE OF LISTING RULES

The Company has adopted the Model Code contained in Appendix C3 of the Listing Rules. Having made specific enquiry with the Directors, 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 2024.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This results announcement is published on the website of the Company at www.chinapipegroup.com and the website of the Stock Exchange at www.hkexnews.hk. The 2024 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
Co-Chairman

Hong Kong, 27 August 2024

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