Dalipal Holdings Limited
達力普控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1921)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2020	2019	
	RMB'million	*RMB'million*	Changes
Revenue	**2,259.4**	2,826.0	-20.0%
Gross profit	**104.4**	534.3	-80.5%
Gross profit margin	***4.6%***	*18.9%*	
(Loss)/profit from operations	**(47.1)**	479.8	-109.8%
EBITDA	**72.8**	563.5	-87.1%
(Loss)/profit before taxation	**(144.1)**	409.7	-135.2%
(Loss)/profit for the year	**(117.9)**	337.4	-134.9%
Net profit margin	***(5.2%)***	*11.9%*	
(Loss)/profit for the year attributable to equity shareholders of the Company:	**(116.4)**	333.7	-134.9%
(Loss)/earnings per share – Basic and diluted (RMB)	**(0.08)**	0.27	-129.6%

RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Dalipal Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2020 (the "**Year**"), together with the comparative figures for the year ended 31 December 2019, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2020
(Expressed in Renminbi ("RMB"))

	Note	2020 RMB'000	2019 RMB'000
Revenue	3	**2,259,402**	2,825,969
Cost of sales		**(2,155,002)**	(2,291,647)
Gross profit		**104,400**	534,322
Other income	4	**16,733**	134,514
Selling expenses		**(51,580)**	(61,584)
Administrative expenses		**(116,639)**	(127,465)
(Loss)/profit from operations		**(47,086)**	479,787
Finance costs		**(97,044)**	(70,056)
(Loss)/profit before taxation	5	**(144,130)**	409,731
Income tax	6	**26,226**	(72,321)
(Loss)/profit for the year		**(117,904)**	337,410
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation into presentation currency		**(985)**	867
Total comprehensive income for the year		**(118,889)**	338,277
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company		**(116,417)**	333,729
Non-controlling interests		**(1,487)**	3,681
(Loss)/profit for the year		**(117,904)**	337,410
Total comprehensive income for the year attributable to:			
Equity shareholders of the Company		**(117,402)**	334,596
Non-controlling interests		**(1,487)**	3,681
Total comprehensive income for the year		**(118,889)**	338,277
(Loss)/earnings per share	7		
Basic and diluted (RMB)		**(0.08)**	0.27

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2020
(Expressed in RMB)

	Note	**2020** *RMB'000*	2019 *RMB'000*
Non-current assets			
Property, plant and equipment		**1,922,593**	1,972,521
Deferred tax assets		**19,254**	4,553
		1,941,847	1,977,074
Current assets			
Inventories		**494,951**	440,631
Trade and bills receivables	8	**752,695**	914,630
Prepayments, deposits and other receivables		**83,017**	98,725
Cash at bank and on hand		**416,173**	810,620
		1,746,836	2,264,606
Current liabilities			
Trade and bills payables	9	**319,246**	280,744
Other payables and accruals		**159,335**	172,139
Interest-bearing borrowings		**1,479,052**	1,361,807
Lease liabilities		**151**	934
Current taxation		**9,276**	28,020
		1,967,060	1,843,644
Net current (liabilities)/assets		**(220,224)**	420,962
Total assets less current liabilities		**1,721,623**	2,398,036
Non-current liabilities			
Interest-bearing borrowings		**443,200**	840,900
Lease liabilities		**–**	161
Deferred tax liabilities		**–**	13,437
Deferred income		**15,842**	17,559
		459,042	872,057
NET ASSETS		**1,262,581**	1,525,979
CAPITAL AND RESERVES	10		
Share capital		**134,263**	134,263
Reserves		**1,128,318**	1,380,638
Total equity attributable to equity shareholders of the Company		**1,262,581**	1,514,901
Non-controlling interests		**–**	11,078
TOTAL EQUITY		**1,262,581**	1,525,979

NOTES

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

Dalipal Holdings Limited (the "Company") was incorporated in the Cayman Islands on 28 August 2018 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 November 2019 (the "Listing Date"). The Company and its subsidiaries (together, the "Group") are principally engaged in the development, manufacture and sale of oil country tubular goods ("OCTG"), other oil pipes and pipe billets.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Group's financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group.

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

The Group incurred a loss of RMB117,904,000 for the year ended 31 December 2020. As at 31 December 2020, the Group had net current liabilities of RMB220,224,000, including bank and other borrowings of RMB1,479,052,000 which were due for repayment and renewal within the next twelve months from the end of the reporting period.

The directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position, including:

(i) The Group has maintained its long-term strong business relationship with its major banks to get their continuing support. The Group is actively discussing with its banks for renewal of bank borrowings, which will be on due in the year ending 31 December 2021. From 1 January 2021 to the date of authorisation of the financial statements, the Group has renewed bank borrowings of RMB217,080,000 and obtained new bank borrowings of RMB118,000,000. The directors are of the opinion that the Group will be able to either renew or obtain new banking facilities to supplement liquidity of the Group at adequate level during the year ending 31 December 2021; and

(ii) The Group has been implementing various strategies to develop new market while maintaining strong relationship with current principal customers to generate additional operating cash inflows and putting extra efforts on the collection of trade debtors to improve the Group's operating cash flows.

Based on a cash flow forecast of the Group for the next twelve months ending 31 December 2021 prepared by the management, which has taken into account that most of the Group's bank borrowings will be refinanced, the directors of the Company consider that there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern.

Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period to the Group:

- Amendments to IFRS 3, *Definition of a Business*

- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*

- Amendments to IFRS 1 and IFRS 8, *Definition of Material*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, *COVID-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The Group is principally engaged in the development, manufacture and sale of OCTG, other oil pipes and pipe billets. All of the revenue of the Group is recognised at a point in time. The customers obtain control of the products when they are delivered to and have been accepted at premises determined by the customers. Acceptance notes are generated and revenue is recognised at that point in time.

Disaggregation of revenue from contracts with customers by major products is as follows:

	2020	2019
	RMB'000	*RMB'000*
Sales of OCTG	**1,060,130**	1,641,353
Sales of other oil pipes	**714,910**	417,473
Sales of pipe billets	**484,362**	767,143
	2,259,402	2,825,969

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

	2020	2019
	RMB'000	*RMB'000*
Customer A	**485,283**	547,487
Customer B	**245,528**	*
Customer C	**236,500**	372,003
Customer D	*	290,341

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

(b) Segment reporting

The Group manages its businesses by products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- OCTG: this segment includes primarily the manufacture and sale of OCTG.
- Other oil pipes: this segment includes primarily the manufacture and sale of other oil pipes.
- Pipe billets: this segment includes primarily the manufacture and sale of pipe billets.

(i) ***Segment results, assets and liabilities***

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments during normal operations. The measure used for reporting segment result is gross profit, but excluded depreciation expenses, staff costs and utilities expenses incurred during the suspension of production as a result of the COVID-19 pandemic. No inter-segment sales have occurred for the years ended 31 December 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income and selling and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance the years ended 31 December 2020 and 2019 is set out below.

		2020		
	OCTG	**Other oil pipes**	**Pipe billets**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**1,060,130**	**714,910**	**484,362**	**2,259,402**
Reportable segment gross profit	**139,351**	**9,127**	**17,874**	**166,352**

		2019		
	OCTG	Other oil pipes	Pipe billets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	1,641,353	417,473	767,143	2,825,969
Reportable segment gross profit	406,771	73,559	53,992	534,322

(ii) ***Reconciliation of reportable segment gross profit***

	2020	2019
	RMB'000	*RMB'000*
Reportable segment gross profit	**166,352**	534,322
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the COVID-19 pandemic	**(61,952)**	–
Reportable segment gross profit derived from the Group's external customers	**104,400**	534,322

(iii) ***Geographic information***

The following tables set out information about the geographical location of the Group's revenue from external customers. The geographical information about the revenue prepared by location at which the goods were delivered is as follows:

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**2,070,767**	2,632,105
Overseas:		
Turkmenistan	**48,302**	12,029
Egypt	**48,266**	1,256
Gabon	**35,788**	–
Oman	**19,183**	144,931
Others	**37,096**	35,648
	188,635	193,864
	2,259,402	2,825,969

All of the Group's non-current assets are located in the PRC. Accordingly, no segment analysis based on geographical location of the assets is provided.

4 OTHER INCOME

	2020	2019
	RMB'000	*RMB'000*
Government grants (including amortisation of deferred income)	**18,154**	5,678
Interest income	**5,141**	2,001
Net gain on relocation of production facilities	**–**	125,501
Net loss on disposal of other property, plant and equipment	**(2,123)**	(1,676)
Net foreign exchange (loss)/gain	**(3,244)**	1,042
Others	**(1,195)**	1,968
	16,733	134,514

5 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

	2020	2019
	RMB'000	*RMB'000*
Interest expenses on borrowings	**90,060**	99,495
Interest expenses on lease liabilities	**36**	59
Others	**6,948**	5,904
	97,044	105,458
Less: interest expenses capitalised into construction in progress*	**–**	(35,402)
	97,044	70,056

* No borrowing cost has been capitalised in 2020 (The borrowing costs have been capitalised at a rate of 5.73% per annum in 2019).

(b) Staff costs#

	2020	2019
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**153,923**	155,126
Contributions to defined contribution retirement plan	**7,604**	10,973
Equity-settled share-based payment expenses	**4,078**	1,788
	165,605	167,887

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong SAR) participate in a defined contribution retirement benefit plan managed by the local government authority. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the defined salaries level in the PRC (excluding Hong Kong SAR), from the above mentioned retirement plan at their normal retirement age.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

The Group has no further material obligation for payment of other retirement benefits beyond the above contributions.

(c) **Other items**

	2020	2019
	RMB'000	*RMB'000*
Depreciation expenses[#]		
– owned property, plant and equipment	**113,228**	77,005
– right-of-use assets	**6,655**	6,733
Impairment losses (reversed)/recognised on trade receivables	**(2,995)**	5,322
Impairment losses on prepayments and other receivables	**2,689**	25
Auditors' remuneration		
– audit services	**2,242**	2,510
– non-audit services	**800**	–
– services in connection with the initial listing of the Company's shares	**–**	3,647
Research and development costs	**24,983**	23,028
Cost of inventories[#]	**2,093,050**	2,291,647

[#] Cost of inventories include RMB150,398,000 (2019: RMB164,793,000) relating to staff costs and depreciation expenses, which amounts are also included in the respective amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(a) **Taxation in the consolidated statement of profit or loss and other comprehensive income represents:**

	2020	2019
	RMB'000	*RMB'000*
Current taxation:		
– Provision for the year	**7,182**	64,801
– Over-provision in respect of prior years	**(5,270)**	(1,526)
	1,912	63,275
Deferred taxation:		
– Origination and reversal of temporary differences	**(21,259)**	(4,391)
– (Change in applicable withholding tax rate)/withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group *(Note 6(b)(v))*	**(6,879)**	13,437
	(28,138)	9,046
	(26,226)	72,321

(b) Reconciliation between tax expense and accounting (loss)/profit at applicable tax rates:

	2020	2019
	RMB'000	*RMB'000*
(Loss)/profit before taxation	**(144,130)**	409,731
Expected tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Notes (i), (ii) and (iii))*	**(29,800)**	104,761
Tax effect of non-deductible expenses	**951**	2,567
Tax effect on preferential tax rate *(Note (iv))*	**16,272**	(45,418)
Tax effect on bonus deduction of research and development costs	**(1,500)**	(1,500)
Over-provision in respect of prior years	**(5,270)**	(1,526)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group *(Note (v))*	**(6,879)**	13,437
Actual tax expense	**(26,226)**	72,321

Notes:

(i) The Company and the subsidiaries of the Group incorporated in the Cayman Islands and British Virgin Islands (the "BVI") are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

(ii) The Company and the Hong Kong incorporated subsidiaries of the Group are subject to Hong Kong Profits Tax according to the two-tiered profits tax rates regime from the year of assessment 2018/19 onwards. The profits tax rate for the first HK$2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong SAR) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2020 (2019: 25%).

(iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfilment of the recognition criteria. Dalipal Pipe was qualified as a HNTE and is entitled to the preferential tax rate of 15% for the three calendar years ended 31 December 2018, 2019 and 2020.

(v) Pursuant to the China-Hong Kong Double Tax Arrangement, one of the Group's subsidiaries, Dalipal Hong Kong Company Limited, has obtained approval from the relevant tax authorities and is eligible for preferential PRC Withholding Tax rate of 5% instead of 10% for dividends received from the PRC subsidiaries of the Group. As a result of the change in tax rate, the related deferred tax liabilities balance was adjusted accordingly.

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The basic loss per share for the year ended 31 December 2020 is calculated based on the loss attributable to equity shareholders of the Company of RMB116,417,000 and the weighted average of 1,500,000,000 ordinary shares in issue.

The basic earnings per share for the year ended 31 December 2019 is calculated based on the profit attributable to equity shareholders of the Company of RMB333,729,000 and the weighted average of 1,244,384,000 ordinary shares, comprising:

(i) 970,000 ordinary shares in issue at 1 January 2019;

(ii) 30,000 shares issued to an investor on 9 January 2019 as a result of the Group's reorganisation, as if these ordinary shares were outstanding throughout the year ended 31 December 2019;

(iii) 1,199,000,000 ordinary shares issued pursuant to the capitalisation issue immediately prior to the completion of the initial public offering, as if these ordinary shares were outstanding throughout the year ended 31 December 2019; and

(iv) 300,000,000 ordinary shares issued on the Listing Date by initial public offering.

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

	2020	2019
Issued ordinary shares at 1 January	**1,500,000,000**	970,000
Issuance of shares on 9 January 2019	**–**	30,000
Effect of capitalisation issue	**–**	1,199,000,000
Effect of shares issued on the initial listing of the Company's shares on the Stock Exchange	**–**	44,384,000
Weighted average number of shares in issue	**1,500,000,000**	1,244,384,000

(b) Diluted (loss)/earnings per share

The diluted loss per share for the year ended 31 December 2020 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2019 is based on the profit attributable to equity shareholders of the Company of RMB333,729,000 and the weighted average number of ordinary shares (diluted) of 1,246,189,337.

The weighted average number of ordinary shares (diluted) for the year ended 31 December 2019 is calculated as follows:

	2019
Weighted average number of ordinary shares at 31 December	**1,244,384,000**
Effect of deemed issue of shares under the Company's share option scheme	**1,805,337**
Weighted average number of ordinary shares (diluted) at 31 December	**1,246,189,337**

8 TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**261,258**	453,422
Less: loss allowance *(Note 8(b))*	**(5,838)**	(8,833)
	255,420	444,589
Bills receivables	**497,275**	470,041
	752,695	914,630

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

The balance of bills receivables represents bank and trade acceptance notes received from customers with maturity dates of less than one year.

(a) Ageing analysis

The ageing analysis of the trade receivables, based on the invoice date and net of loss allowance, of the Group is as follows:

	2020	2019
	RMB'000	*RMB'000*
Less than 1 month	**143,007**	231,615
1 to 3 months	**88,151**	178,652
3 to 6 months	**16,632**	34,322
Over 6 months	**7,630**	–
	255,420	444,589

The Group's customers are mainly oil and gas extractive companies in the PRC.

(b) Impairment of trade and bills receivables

The movements in the loss allowance account are as follows:

	2020	2019
	RMB'000	*RMB'000*
At 1 January	**8,833**	3,511
Credit losses (reversed)/recognised *(Note 5(c))*	**(2,995)**	5,322
At 31 December	**5,838**	8,833

9 TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**288,797**	259,358
Bills payables	**30,449**	21,386
	319,246	280,744

All of the trade and bills payables are expected to be settled within one year or are repayable on demand.

The ageing analysis of trade and bills payables, based on the invoice date, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Less than 1 month	**239,028**	212,193
1 to 3 months	**52,553**	21,612
3 to 6 months	**18,440**	13,611
Over 6 months	**9,225**	33,328
	319,246	280,744

10 SHARE CAPITAL AND DIVIDENDS

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the year

	2020	2019
	RMB'000	*RMB'000*
No final dividend proposed after the end of the reporting (2019: HK$0.1 per ordinary share)	**–**	135,907

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

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

	2020	2019
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year of HK$0.1 per ordinary share (2019: Nil)	**135,907**	–

(b) Share capital

	2020		2019	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised share capital	**20,000,000**	**2,000,000**	20,000,000	2,000,000

	2020		2019	
	Number of shares	**Amount**	Number of shares	Amount
		RMB'000		*RMB'000*
Ordinary shares, issued and fully paid:				
At 1 January	**1,500,000,000**	**134,263**	970,000	85
Issuance of shares	**–**	**–**	30,000	3
Capitalisation issue	**–**	**–**	1,199,000,000	107,322
Issuance of shares by initial public offering	**–**	**–**	300,000,000	26,853
At 31 December	**1,500,000,000**	**134,263**	1,500,000,000	134,263

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2020 was a challenging year for the Group's business. Due to the impact of the COVID-19 Pandemic ("**Pandemic**"), the Group's production facilities were suspended temporarily during the first quarter of 2020 and the Group's operation was subsequently disrupted from time to time by customers' delay in resuming work, slow down in their investments, and blockage of supply of raw materials. As a result, the Group's production capacity utilization rate during the Year was relatively lower, causing a decrease of approximately 20.0% in the Group's annual revenue as compared with the same period last year. The continuous increase in the unit price of the Group's major raw material, scrap metal, had further caused the Group's gross profit margin to decrease to 4.6% in 2020 as compared to 18.9% last year. The Group recorded a loss for the Year in the amount of approximately RMB117.9 million, as compared with the profit of RMB337.4 million recorded for the preceding year. Loss for the Year attributable to equity shareholders of the Company amounted to approximately RMB116.4 million, as compared to the profit attributable to equity shareholders of approximately RMB333.7 million recorded in 2019. Basic and diluted loss per share amounted to RMB0.08 for the Year, as compared with the earnings per share of RMB0.27 recorded for last year.

BUSINESS REVIEW

	2020		2019		Change	
	Sales	**Proportion of sales**	Sales	Proportion of sales	Sales	Percentage
	RMB million	**%**	*RMB million*	%	*RMB million*	%
OCTG	**1,060.1**	**46.9%**	1,641.4	58.1%	–581.3	–35.4%
Other oil pipes	**714.9**	**31.7%**	417.5	14.8%	297.4	71.2%
Pipe billets	**484.4**	**21.4%**	767.1	27.1%	–282.7	–36.9%
	2,259.4	**100.0%**	2,826.0	100.0%	–566.6	–20.0%

	2020		2019		Change	
	Sales	**Proportion of sales**	Sales	Proportion of sales	Sales	Proportion of sales
Domestic sales	**2,070.8**	**91.7%**	2,632.1	93.1%	–561.3	–21.3%
Overseas sales	**188.6**	**8.3%**	193.9	6.9%	–5.3	–2.7%
	2,259.4	**100.0%**	2,826.0	100.0%	–566.6	–20.0%

During the Year, the Group recorded a decrease by approximately 35.4% in the revenue generated from the sales of OCTG to approximately RMB1,060.1 million (2019: RMB1,641.4 million), an increase by approximately 71.2% in the revenue generated from the sales of other oil pipes to approximately RMB714.9 million (2019: RMB417.5 million), and a decrease by approximately 36.9% in the revenue generated from the sales of pipe billets to approximately RMB484.4 million (2019: RMB767.1 million).

The decrease in the revenue from the sales of OCTG was mainly due to lower product selling price and a decrease in sales volume affected by the Pandemic. After the completion of the Group's Phase One expansion of production facilities (the "**Phase One Expansion**") in August 2019, in order to cope with the temporary downturn in the OCTG market during the Year, the Group actively expanded its sales in the other oil pipe markets, causing an increase in the revenue from the sales of other oil pipes during the Year. The decrease in the revenue from pipe billets was mainly due to the decrease in sales volume of pipe billets and certain pipe billets had been utilized internally for the production of other oil pipes, as well as the decrease in product selling price.

During the Year, revenue from overseas sales of the Group decreased by approximately 2.7% to approximately RMB188.6 million (2019: RMB193.9 million), mainly attributable to the decrease in overseas product prices.

PROSPECTS

The Group has been closely monitoring the impact from the Pandemic on the Group's business and has put in place various contingency measures. These contingency measures include but not limited to carrying out reassessment on the demand and selling price of OCTG products in order to make the necessary adjustments to its production activities in light of the changes in demand of refined oil in the market and the fluctuations in the price of crude oil, expanding the supplier base of raw materials, improving the procurement quality of raw material, expanding the scope of the product market, developing and promoting new products, improving product quality to ensure the Group is able to meet types of customers' demands and improving the Group's cash management by expediting debtor settlements and negotiating with suppliers on extension of payment terms. The Group will keep the contingency measures under review as the Pandemic situation evolves.

As far as the Group's businesses are concerned, the Pandemic and the volatility in the crude and refined oil markets have caused the decrease in both the sales volume and selling price of the Group's OCTG products, and the Group had temporarily suspended its production activities during the first quarter of 2020. Currently, the gradual easing of the Pandemic situation in the PRC and stabilisation of the global crude and refined oil markets have led to the recovery of the demand and selling price of OCTG products.

The Group expects that there will be no material negative change to the future development of the Group's business, except for the impact of the Pandemic.

EVENTS AFTER THE YEAR UNDER REVIEW

There was no significant event after the end of the Year up to the date of this announcement.

FINANCIAL REVIEW

Revenue

The Group recorded a revenue of approximately RMB2,259.4 million in total for the Year, representing a decrease by approximately 20.0% as compared to approximately RMB2,826.0 million in 2019. During the Year, revenue from the sales of OCTG and pipe billets decreased, whilst revenue from other oil pipes increased.

Cost of sales

The Group recorded cost of sales of approximately RMB2,155.0 million in total for the Year, representing a decrease by approximately 6.0% as compared to approximately RMB2,291.6 million in 2019, which was mainly due to the decrease in sales volume.

Gross profit and gross profit margin

	2020		2019	
	Gross profit *RMB million*	**Gross profit margin** *%*	Gross profit *RMB million*	Gross profit margin *%*
OCTG	**139.4**	**13.1%**	406.8	24.8%
Other oil pipes	**9.1**	**1.3%**	73.6	17.6%
Pipe billets	**17.9**	**3.7%**	54.0	7.0%
Depreciation expenses, staff costs and utilities incurred during production suspension period as a result of the Pandemic	**–62.0**	**N/A**	N/A	N/A
	104.4	**4.6%**	534.4	18.9%

The total gross profit of the Group for the Year was approximately RMB104.4 million, representing a decrease by approximately 80.5% as compared to approximately RMB534.4 million in 2019. The Group's overall gross profit margin for the Year was approximately 4.6%, representing a decrease by 14.3 percentage points as compared to the gross profit margin of 18.9% in 2019.

Other income

The Group's other income for the Year was approximately RMB16.7 million, representing a decrease by approximately RMB117.8 million as compared to approximately RMB134.5 million in 2019, mainly attributable to a net gain of approximately RMB125.5 million recorded in 2019 on compensations from local government for the relocation of the Group's production facilities due to zone development requirements of the area, but no such income during the Year.

Administrative expenses

The administrative expenses of the Group for the Year was approximately RMB116.6 million, representing a decrease by approximately 8.5% as compared to approximately RMB127.5 million in 2019, mainly attributable to the decrease in the listing expenses.

Finance costs

The finance costs of the Group for the Year was approximately RMB97.0 million, representing an increase by approximately 38.4% as compared to approximately RMB70.1 million in 2019, mainly attributable to the Phase One Expansion was completed and put into production, and the project loan interest was not capitalized, all of which were included in the finance costs and part of the loan has been repaid.

Income tax

For the Year, the Group recorded income tax credit of approximately RMB26.2 million, as compared to the income tax expenses of approximately RMB72.3 million incurred in 2019. The Group recorded income tax credit for the Year was mainly because (1) according to the tax law in the PRC, the Group recorded a loss before taxation during the Year, which gave rise to deductible deferred income tax expenses; (2) Dalipal Hong Kong Company Limited and Dalipal Holdings Limited met the Hong Kong tax resident status in 2020 and according to the regulations of the Hong Kong Special Administrative Region on avoiding double taxation on income, the Group's distribution of dividends abroad is taxed at a reduced rate of 5%, and the original tax difference of 10% is reversed.

Loss/profit for the year and EBITDA

The Group recorded a net loss of approximately RMB117.9 million for the Year as compared with the profit of approximately RMB337.4 million recorded for the preceding year.

The Group's EBITDA for the Year decreased by approximately 87.1% to approximately RMB72.8 million from approximately RMB563.5 million for the preceding year.

Inventories

The Group's inventory turnover days increased slightly from 69 days for the year ended 31 December 2019 to 79 days for the Year, due to slower inventory turnover as affected by the Pandemic.

Loss/profit for the year attributable to equity shareholders

The loss attributable to equity shareholders of the Company for the Year was approximately RMB116.4 million, as compared to the profit attributable to equity shareholders of the Company of approximately RMB333.7 million for the preceding year.

Capital Expenditure

During the Year, the Group invested approximately RMB72.1 million (2019: approximately RMB520.3 million) in property, plant and equipment, representing a decrease of RMB448.2 million as compared to the preceding year, mainly attributable to the construction of Phase One Expansion was finished in the preceding year.

Liquidity, financial resources and capital structure

The Group has mainly financed its working capital and other cash requirements by net cash generated from operating activities and resorted to external financing including both long-term and short-term bank borrowings in case the projected operating cash flow is insufficient to meet the capital requirements.

As at 31 December 2020, cash at bank and on hand amounted to approximately RMB416.2 million in aggregate (2019: RMB810.6 million). Interest-bearing borrowings of the Group amounted to approximately RMB1,922.3 million, of which RMB443.2 million were long-term borrowings and approximately RMB1,479.1 million were short-term borrowings.

Debt to equity ratio, which is calculated by the net liabilities (interest-bearing borrowings net of cash at bank and on hand) divided by the total equity as at the respective year end and multiplied by 100%, was approximately 119.3%, representing an increase by 28.1 percentage points as compared to approximately 91.2% in 2019, due to the decrease in total equity attributable to equity shareholders given the operating loss and dividends paid to the shareholders.

Current ratio, which is calculated based on the current assets divided by the current liabilities, further decreased from 1.2 as at 31 December 2019 to 0.9 as at 31 December 2020.

Employees and remuneration policy

As at 31 December 2020, the Group had 1,453 employees (2019: 1,888 employees). The total staff costs amounted to approximately RMB165.6 million (2019: RMB167.9 million).

The Group believes its success depends on its employees' provision of consistent, high quality and reliable services. In order to attract, retain and enrich the knowledge, skill level and qualifications of its employees, the Group places a strong emphasis on training for employees. In addition, the Group offers a competitive remuneration package, including basic salary and performance-based monthly and annual bonuses, and reviews the remuneration package annually according to industry benchmark, financial results, as well as the performance of employees.

Pledge of assets

As at 31 December 2020, the Group's property, plant and equipment with carrying amount of approximately RMB1,179.0 million and other chattels with carrying amount of approximately RMB440.9 million were pledged as collateral for the Group's bank borrowings.

Foreign exchange risk

A majority of the Group's businesses are operated in the PRC and are denominated in RMB. It is expected that the Group will not be subject to any materially adverse effects arising from exchange rate fluctuation. Nevertheless, the Group will closely monitor the financial market and would consider appropriate measures as and when necessary.

Significant investments held and material acquisitions and disposals

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

Contingent liabilities

As of 31 December 2020, the Group did not have any contingent liabilities.

Use of Proceeds from Initial Public Offering ("IPO")

The Company's shares were listed on the Main Board of the Stock Exchange on 8 November 2019 ("**Listing Date**") and we received net proceeds (after deduction of underwriting commission and related costs and expenses) of approximately HK$426.3 million (approximately RMB383.7 million) from the IPO. As stated in the prospectus of the Company dated 28 October 2019, the Company intended to use the proceeds (i) to fund the Phase Two Expansion; (ii) to strengthen the Group's product research and development and innovation capabilities; (iii) to strengthen the Group's relationships with key customers, expand the Group's customer base and further expand the Group's sales to overseas markets; and (iv) for general replenishment of working capital and other general corporate purpose.

On 10 June 2020, the Board resolved to allocate part of the unutilised net proceeds of the Phase Two Expansion for the repayment of certain existing interest-bearing borrowings of the Group (the "**Reallocation**"). For details of the Reallocation, please refer to the Company's announcement dated 10 June 2020. During the Year, the net proceeds had been applied for as follows:

	Original planned use of net proceeds *(RMB million)*	**Amount of Reallocation** *(RMB million)*	**Amount utilised as at 31 December 2020** *(RMB million)*	**Unutilised net proceeds as at 31 December 2020** *(RMB million)*
To fund the Phase Two Expansion	339.2	(200.0)	38.0	101.2
To strengthen the Group's product research and development and innovation capabilities	9.2	–	3.7	5.5
To strengthen the Group's relationships with key customers, expand the Group's customer base and further expand the Group's sales to overseas markets	7.7	–	4.8	2.9
For general replenishment of working capital and other general corporate purpose.	27.6	–	7.6	20.0
For loan repayment	–	200.0	200.0	0.0
Total	383.7	–	254.1	129.6

The unutilised net proceeds are kept in banks and approved financial institutions in Hong Kong and the PRC. As at the date of this announcement, the Company does not anticipate any further change to the above planned use of proceeds after the Reallocation. The remaining unutilised net proceeds as at 30 June 2020 are currently expected to be fully utilised on or before 30 June 2022. There is delay to the timeline for the use of proceeds as disclosed in the Company's 2019 annual report (originally expected to be fully utilised on or before 31 March 2021), as the commencement of the Phase Two Expansion plan has been postponed in light of the impact of the Pandemic.

DIVIDENDS

For the year ended 31 December 2020, the Board has resolved not to recommend the payment of a final dividend (2019: HK$0.1 per share).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the Year.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the provisions in the Corporate Governance Code (the "**CG Code**") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and has complied with all the code provisions as set out in the CG Code during the Year.

MODEL CODE SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions in terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules. Having made specific enquiries with each of the Directors, all Directors have confirmed to the Company that they have complied with the required standards set out in the Model Code during the Year.

REVIEW OF ANNUAL RESULTS

The Group's consolidated financial statements for the Year have been reviewed and approved by the audit committee of the Board (the "**Audit Committee**"), and the Audit Committee is of the opinion that such financial statements comply with the applicable accounting standards, the Listing Rules and all other applicable legal requirements. The Audit Committee therefore recommended the Board to approve the Group's consolidated financial statements for the Year.

ANNUAL GENERAL MEETING

The annual general meeting is currently scheduled to be held on Friday, 28 May 2021 (the "**AGM**"). A notice convening the AGM and other relevant documents will be published and despatched to the shareholders of the Company in accordance with the requirements of the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

In order for determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 25 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Center, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 24 May 2021.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of this preliminary announcement of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and related notes thereto for the year ended 31 December 2020 have been compared by the Group's auditor, KPMG, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the Group's auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The results announcement for the Year is published on the Company's website at www.dalipal.com and the website of the Stock Exchange at www.hkexnews.hk. The 2020 annual report of the Company will be despatched to the shareholders of the Company and available on the above websites in due course in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, the Board would like to take this opportunity to express its sincere gratitude to all staff of the Group for their dedication and cooperation and to all shareholders for their support.

By order of the Board
Dalipal Holdings Limited
達力普控股有限公司
Meng Fanyong
Chairman and executive Director

Hong Kong, 26 March 2021

As at the date of this announcement, the Board comprises Mr. Meng Fanyong, Mr. Zhang Hongyao, Ms. Xu Wenhong, Mr. Meng Yuxiang, Ms. Gan Shuya and Mr. Yin Zhixiang as the executive Directors; and Mr. Guo Kaiqi, Mr. Wong Jovi Chi Wing and Mr. Cheng Haitao as the independent non-executive Directors.