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KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06890)

DISCLOSEABLE TRANSACTION – MACHINERY PROCUREMENT FOR PRODUCTION; AND CHANGE IN USE OF PROCEEDS

DISCLOSEABLE TRANSACTION – MACHINERY PROCUREMENT FOR PRODUCTION

On 10 May 2021, Jiangnan Precision (being an indirect wholly-owned subsidiary of the Company) entered into the Machinery Procurement Agreement I and the Machinery Procurement Agreement II respectively with Jiangsu Yawei and Beijing Xinghe, pursuant to which Jiangnan Precision has conditionally agreed to purchase from each of Jiangsu Yawei and Beijing Xinghe and each of Jiangsu Yawei and Beijing Xinghe has conditionally agreed to sell (i) the New Slitting and Cutting units and software; and (ii) the New Colour Coating Line at a consideration of RMB14.85 million and RMB29.50 million respectively.

LISTING RULES IMPLICATIONS

As all applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under the Machinery Procurement Agreement I are less than 5% and the transaction does not involve the issue of securities of the Company, the transaction does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the transaction contemplated under the Machinery Procurement Agreement II are more than 5% but less than 25%, the transaction contemplated under the Machinery Procurement Agreement II constitutes a discloseable transaction for the Company, and is therefore subject to the reporting and announcement requirement under the Listing Rules.

CHANGE IN USE OF PROCEEDS

Having considered the changes in the business environment, in order to utilise the Net Proceeds in a more effective way and to facilitate efficient allocation of the Company's financial resources, the Board reviewed the utilisation of the Net Proceeds and resolved to reallocate the portion of the use of Net Proceeds to finance the transactions contemplated under the Machinery Procurement Agreements.

DISCLOSEABLE TRANSACTION – MACHINERY PROCUREMENT FOR PRODUCTION

The Board announces that, on 10 May 2021, Jiangnan Precision (being an indirect wholly-owned subsidiary of the Company) entered into the Machinery Procurement Agreement I and the Machinery Procurement Agreement II respectively with Jiangsu Yawei and Beijing Xinghe, pursuant to which Jiangnan Precision has conditionally agreed to purchase from each of Jiangsu Yawei and Beijing Xinghe and each of Jiangsu Yawei and Beijing Xinghe has conditionally agreed to sell (i) the New Slitting and Cutting units and software; and (ii) the New Colour Coating Line at a consideration of RMB14.85 million and RMB29.50 million respectively. The principal terms of each of the Machinery Procurement Agreement I and Machinery Procurement Agreement II are set out as follows:

PRINCIPAL TERMS OF THE MACHINERY PROCUREMENT AGREEMENT I

Date	:	10 May 2021
Parties	:	Purchaser : Jiangnan Precision, an indirect wholly-owned subsidiary of the Company
		Vendor : Jiangsu Yawei. To the best of the knowledge, information and belief of the Board having made all reasonable enquiry, Jiangsu Yawei and its ultimate beneficial owners are independent third parties
Machinery to be acquired	:	The New Slitting and Cutting units and software
Consideration	:	The consideration under the Machinery Procurement Agreement I is RMB14.85 million. Within 7 business days upon entering into the Machinery Procurement Agreement I, Jiangnan Precision shall pay to Jiangsu Yawei RMB4,455,000 as prepayment. Jiangnan Precision shall pay Jiangsu Yawei RMB8,910,000 before delivery of the New Slitting and Cutting units and software. Jiangnan Precision shall pay the remaining portion of the consideration in one lump sum within 7 business days after the 12-month period from the acceptance date.
		The Group has invited three suppliers to submit tender for the supply of the New Slitting and Cutting units and software and the Group has awarded the contract to Jiangsu Yawei, through consideration of, among other things, the pricing and the specifications of the New Slitting and Cutting units and software submitted by each tenderer.
Source of fund for consideration	:	Net Proceeds raised from the Global Offering. For details, please refer to the paragraph headed “Financing of Payment by the Group and Change in Use of Proceeds” in this announcement below.

- Delivery** : Within 195 business days following the signing of the Machinery Procurement Agreement I, Jiangsu Yawei shall commence the relevant delivery procedures pursuant to Machinery Procurement Agreement I.
- Maintenance period** : Jiangsu Yawei shall provide a maintenance period of the New Slitting and Cutting units and software for 12 months from the product acceptance date.

PRINCIPAL TERMS OF THE MACHINERY PROCUREMENT AGREEMENT II

- Date** : 10 May 2021
- Parties** : **Purchaser** : Jiangnan Precision, an indirect wholly-owned subsidiary of the Company
- Vendor** : Beijing Xinghe. To the best of the knowledge, information and belief of the Board having made all reasonable enquiry, Beijing Xinghe and its ultimate beneficial owners are independent third parties
- Machinery to be acquired** : The New Colour Coating Line
- Consideration** : The consideration under the Machinery Procurement Agreement II is RMB29.50 million. Within 10 business days upon entering into the Machinery Procurement Agreement II, Jiangnan Precision shall pay Beijing Xinghe RMB8,850,000 as prepayment. Jiangnan Precision shall pay the remaining portion of the consideration by five instalments, each within 10 business days after receiving relevant acceptance documents pursuant to Machinery Procurement Agreement II.
- The Group has invited five suppliers to submit tender for the supply of the New Colour Coating Line and the Group has awarded the contract to Beijing Xinghe, through consideration of, among other things, the pricing of and the specifications of the New Colour Coating Line submitted by each tenderer.
- Source of fund for consideration** : Net Proceeds raised from the Global Offering. For details, please refer to the paragraph headed “Financing of Payment by the Group and Change in Use of Proceeds” in this announcement below.
- Delivery** : Within 10 months following the signing of Machinery Procurement Agreement II, Beijing Xinghe shall commence the relevant delivery procedures pursuant to the Machinery Procurement Agreement II.

Maintenance period : Beijing Xinghe shall provide a maintenance period of the New Colour Coating Line for 12 months from the product acceptance date.

INFORMATION OF THE PARTIES

The Company is a company incorporated in Cayman Islands with limited liability and is principally engaged in the manufacture and sales of hard steel coil, unpainted galvanised steel products and painted galvanised steel products. Jiangnan Precision, an indirect wholly-owned subsidiary of the Company, is a company established in the PRC and is principally engaged in steel processing.

Jiangsu Yawei is a company established in the PRC with limited liability and is principally engaged in laser processing equipment business, metal forming machine tool business and intellectual manufacturing solution business.

Beijing Xinghe is a company established in the PRC with limited liability and is principally engaged in the sales, research and development, manufacturing, engineering and service of intellectual full set equipment.

To the best of the knowledge, information and belief of the Board having made all reasonable enquiry, each of Jiangsu Yawei and Beijing Xinghe and its respective ultimate beneficial owners are independent third parties.

INFORMATION OF THE MACHINERY TO BE ACQUIRED

The primary function of the New Slitting and Cutting units and software is to process the painted galvanized steel products and unpainted galvanized steel products from coil form into sheet form with specific widths and lengths according to customers' specifications. As compared with our existing slitting and cutting line, the New Slitting and Cutting units and software will be able to process wider hot-dip galvanized steel products in terms of width with higher processing speed which we believe could increase our production efficiency, and also reduce our labour cost with the use of its automated programme to replace the slitting and cutting blades as and when required.

The primary function of the New Colour Coating Line is to process the unpainted galvanized steel products in coil form into painted galvanized steel products in coil form. As compared with our existing colour coating line, the New Colour Coating Line has more advanced emission treatment and heat recovery system, and will be able to process wider unpainted galvanized steel products in terms of width, thus we believe it could increase our production efficiency.

LISTING RULES IMPLICATIONS

As all applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under the Machinery Procurement Agreement I are less than 5% and the transaction does not involve the issue of securities of the Company, the transaction does not constitute any notifiable transaction of the Company under Chapter 14 of the Listing Rules.

As one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the transaction contemplated under the Machinery Procurement Agreement II are more than 5% but less than 25%, the transaction contemplated under the Machinery Procurement Agreement II constitutes a discloseable transaction for the Company, and is therefore subject to the reporting and announcement requirement under the Listing Rules.

FINANCING OF PAYMENT BY THE GROUP AND CHANGE IN USE OF PROCEEDS

The transactions contemplated under the Machinery Procurement Agreements are to be financed by the Net Proceeds raised from the Listing of the Company in November 2018. The Net Proceeds raised from the Global Offering was approximately RMB107,086,000 after deducting professional fees, underwriting commissions and other related listing expenses. As at the date of this announcement, the unutilized balance of the Net Proceeds was approximately RMB79,193,000. On 10 May 2021, for the reasons as set out in the paragraph headed “Reasons for and Benefits of the Change in Use of Proceeds” below in this announcement, the Board has resolved to reallocate the unutilised Net Proceeds as follows:

	Original allocation RMB'000	Revised allocation pursuant to the announcement of the Company dated 7 December 2020 RMB'000	Revised allocation pursuant to this announcement RMB'000	Utilisation as at the date of this announcement RMB'000	Remaining balance as at the date of this announcement RMB'000
To expand the production capacity and increase the production efficiency	97,683	79,193	79,193	0	79,193
– To expand the production capacity of the hot-dip galvanization line	97,683	79,193	49,693	0	49,693
– To expand the production capacity of the colour coating line	–	–	29,500	0	29,500
To acquire lands to accommodate the new production line	–	18,490 (<i>Note</i>)	18,490	18,490	0
To repay a bank loan due for repayment in December 2018	3,964	3,964	3,964	3,964	0
To repay outstanding loans	5,439	5,439	5,439	5,439	0
Total	107,086	107,086	107,086	27,893	79,193

Note: For further details, please refer to the announcement of the Company dated 7 December 2020.

REASONS FOR AND BENEFITS OF THE CHANGE IN USE OF PROCEEDS

For the year ended 31 December 2020, the revenue generated from the sale of our unpainted galvanized steel products amounted to approximately RMB965.4 million, representing a slight decrease of approximately 0.5% when compared to the previous year, but the revenue generated from the sale of our painted galvanized steel products amounted to approximately RMB559.8 million, representing an increase of approximately 28.3% from approximately RMB436.3 million for the year ended 31 December 2019. For the year ended 31 December 2020, the sales volume of unpainted galvanized steel products recorded a drop of approximately 1.7% when compared to the previous year, but the sales volume of our painted galvanized steel products increased from 65,684 tonnes in the year ended 31 December 2019 by 19,746 tonnes or approximately 30.1%. The substantial growth in the sales volume of our painted galvanized steel products represented one of the major contributors to the increase in our overall sales volume for the year ended 31 December 2020. The decision to implement the adjustment of our product mix to increase the sales volume of painted galvanized steel products was mainly due to painted galvanized steel products having a higher gross profit margin, which amounted to approximately 14.4%, as compared to unpainted galvanized steel products of approximately 9.3% for the year ended 31 December 2020.

The utilisation rate of our existing colour coating process for the year ended 31 December 2020 was approximately 91.8%, representing an increase of approximately 9.5% when compared to the previous year. In view of the high utilisation rate of our existing colour coating line, we intend to set up a new colour coating line to increase our production capacity of painted galvanized steel products.

In view of the above and to enable the Group to better utilize its resources, the Company plans to reallocate approximately RMB29.50 million of the unutilised Net Proceeds to fund the purchase of the New Colour Coating Line pursuant to the Machinery Procurement Agreement II.

In order to accommodate the expected growth in production volume of our hot-dip galvanized steel products, we intend to prioritize to set up a new slitting and cutting line to increase our production capacity of hot-dip galvanized steel products in sheet form. The funding of purchase of the New Slitting and Cutting units and software under the Machinery Procurement Agreement I is subsumed under the original allocation of proceeds under “to expand the production capacity and increase the production efficiency” and hence no change in use of proceeds is required.

The Board considers that the terms under the Machinery Procurement Agreements and the changes in the use of proceeds and the treatment of unutilised proceeds are fair and reasonable, and would meet the operational needs of the Group more efficiently and enhance the flexibility in financial management of the Company. The Board is of the view that the reallocation is in line with the business strategy of the Group and will not adversely affect the operation and business of the Group and is in the best interests of the Company and the Shareholders as a whole.

The Directors will continuously assess the business objectives of the use of proceeds as set out in the Prospectus, the annual report of the Company and above, and will revise or amend such plans to cope with the changing market conditions to ensure the business growth of the Group. It is expected that the above plan to expand production capacity and increase production efficiency will be funded by the Group's Net Proceeds and internal resources/ external borrowings if necessary.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“associates”	has the meaning ascribed to it under the Listing Rules
“Beijing Xinghe”	Beijing Xinghe Zhonggong Equipment Technology Company Limited* (北京星和眾工設備技術股份有限公司), a company established in the PRC with limited liability
“Board”	the board of Directors
“close associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Company”	KangLi International Holdings Limited (康利國際控股有限公司), a company incorporated in the Cayman Islands, the Shares of which are listed on the Main Board of the Stock Exchange (Stock code: 6890)
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jiangnan Precision”	Jiangsu Jiangnan Precision Metal Material Co., Limited (江蘇江南精密金屬材料有限公司), a limited liability company established under the laws of PRC and an indirect wholly owned subsidiary of the Company
“Jiangsu Yawei”	Jiangsu Yawei Machine Tool Company Limited* (江蘇亞威機床股份有限公司), a company established in the PRC with limited liability
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange commenced from 19 November 2018

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machinery Procurement Agreements”	together, the Machinery Procurement Agreement I and Machinery Procurement Agreement II
“Machinery Procurement Agreement I”	the machinery procurement agreement dated 10 May 2021 entered into between Jiangnan Precision and Jiangsu Yawei in relation to the purchase of the New Slitting and Cutting units and software
“Machinery Procurement Agreement II”	the machinery procurement agreement dated 10 May 2021 entered into between Jiangnan Precision and Beijing Xinghe in relation to the purchase of the New Colour Coating Production Line
“Net Proceeds”	the net proceeds received by the Company in connection with the initial public offering of the Company took place in November 2018, and where the contexts so require, including the net proceeds from the exercise of the over-allotment option on 12 December 2018
“New Colour Coating Line”	The new composite coating intellectual colour coating production line (新型複合塗層智能化彩塗生產綫) to be acquired by Jiangnan Precision under the Machinery Procurement Agreement II
“New Slitting and Cutting units and software”	The three slitting and cutting units (剪切機組) and software to be acquired by Jiangnan Precision under the Machinery Procurement Agreement I
“PRC”	the People’s Republic of China
“Prospectus”	the prospectus of the Company dated 31 October 2018
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“subsidiary(ies)” has the meaning ascribed thereto under the Listing Rules

“%” per cent

By order of the Board
KangLi International Holdings Limited
Liu Ping
Chairman

Hong Kong, 10 May 2021

As at the date of this announcement, the Board comprises five executive Directors, being Mr. Mei Zefeng, Ms. Liu Ping, Mr. Zhang Zhihong, Mr. Xu Chao and Ms. Lu Xiaoyu, and three independent non-executive Directors, being Mr. Li Yuen Fai Roger, Mr. Cao Baozhong and Mr. Yang Guang.

** for identification purpose only*