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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)

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

The board (the “**Board**”) of directors (the “**Directors**”) of KangLi International Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period of the preceding financial year, as follows:

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Key financial information and performance ratios</b>		
– Revenue	<b>992,642</b>	625,226
– Gross profit	<b>124,581</b>	47,801
– Gross profit margin	<b>12.6%</b>	7.6%
– Profit for the period	<b>64,394</b>	10,563
– Net profit margin	<b>6.5%</b>	1.7%
– Earnings per share	<b>RMB0.11</b>	RMB0.02
	<b>At</b>	<b>At</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2021</b>	<b>2020</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>Key performance ratios</b>		
– Current ratio	<b>1.4</b>	1.4
– Gearing ratio	<b>0.7</b>	0.7

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2021**

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2021</b>	<b>2020</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue</b>	4	<b>992,642</b>	625,226
Cost of sales		<u><b>(868,061)</b></u>	<u>(577,425)</u>
<b>Gross profit</b>		<b>124,581</b>	47,801
Other income	5	<b>137</b>	3,717
Selling expenses		<b>(29,858)</b>	(21,984)
Administrative expenses		<b>(9,552)</b>	(9,303)
Impairment loss on trade receivables		<u><b>(68)</b></u>	<u>(47)</u>
<b>Profit from operations</b>		<b>85,240</b>	20,184
Finance costs	6(a)	<u><b>(11,480)</b></u>	<u>(8,317)</u>
<b>Profit before taxation</b>	6	<b>73,760</b>	11,867
Income tax	7	<u><b>(9,366)</b></u>	<u>(1,304)</u>
<b>Profit attributable to equity shareholders of the Company for the period</b>		<u><b>64,394</b></u>	<u>10,563</u>
<b>Earnings per share</b>			
– Basic and diluted ( <i>RMB</i> )	8	<u><b>0.11</b></u>	<u>0.02</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER  
COMPREHENSIVE INCOME**

*FOR THE SIX MONTHS ENDED 30 JUNE 2021*

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Profit for the period</b>	<b>64,394</b>	10,563
<b>Other comprehensive income for the period (after tax):</b>		
Item that are or may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	<u>(67)</u>	<u>116</u>
<b>Total comprehensive income attributable to equity shareholders of the Company for the period</b>	<b><u>64,327</u></b>	<b><u>10,679</u></b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2021**

	<i>Note</i>	At <b>30 June 2021</b> <i>RMB'000</i> <b>(unaudited)</b>	At 31 December 2020 <i>RMB'000</i> <b>(audited)</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		292,236	294,369
<b>CURRENT ASSETS</b>			
Inventories		483,490	433,169
Trade and bills receivables	9	712,931	685,303
Prepayments, deposits and other receivables		152,231	235,231
Cash at bank and on hand		274,874	243,545
		<u>1,623,526</u>	<u>1,597,248</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	10	559,592	588,231
Accrued expenses and other payables		39,093	12,359
Bank and other loans	11	507,935	511,150
Lease liabilities		1,971	16,678
Current taxation		39,912	39,637
		<u>1,148,503</u>	<u>1,168,055</u>
<b>NET CURRENT ASSETS</b>		<u>475,023</u>	<u>429,193</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>767,259</u>	<u>723,562</u>
<b>NON-CURRENT LIABILITIES</b>			
Lease liabilities		28,544	28,201
Deferred tax liabilities		11,494	13,211
		<u>40,038</u>	<u>41,412</u>
<b>NET ASSETS</b>		<u>727,221</u>	<u>682,150</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		534	534
Reserves		726,687	681,616
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY</b>		<u>727,221</u>	<u>682,150</u>

Notes:

## 1 CORPORATE INFORMATION

KangLi International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 21 December 2017 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 19 November 2018. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products.

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, Interim financial reporting, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 27 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

## 3 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to IFRS 16, *Covid-19-related rent concessions*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The Group is principally engaged in the manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products. Further details regarding the Group's principal activities are disclosed in Note 4(b).

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

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue from contracts with customers within the scope of IFRS 15</b>		
Disaggregated by major products:		
– Sales of cold-rolled hard steel coil	47,385	35,124
– Sales of hot-dipped unpainted galvanised steel products	620,735	384,423
– Sales of hot-dipped painted galvanised steel products	324,522	205,679
	<u>992,642</u>	<u>625,226</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in Note 4(b) and Note 4(c) respectively.

### (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.

- Hard steel coil: this segment includes primarily the manufacture and sale of cold-rolled hard steel coil.
- Unpainted galvanised steel products: this segment includes primarily the manufacture and sale of hot-dipped galvanised/zinc coated steel coil and sheet.
- Painted galvanised steel products: this segment includes primarily the manufacture and sale of hot-dipped color coated galvanised steel coil and sheet.

#### (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 cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2021 and 2020. 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, selling and administrative expenses, and impairment loss on financial instruments, 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.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as 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 for the six months ended 30 June 2021 and 2020 is set out below:

	30 June 2021			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	
Revenue from external customers recognised at a point in time	47,385	620,735	324,522	992,642
Reportable segment gross profit	3,663	68,582	52,336	124,581
	30 June 2020			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	
Revenue from external customers recognised at a point in time	35,124	384,423	205,679	625,226
Reportable segment gross profit	2,330	22,952	22,519	47,801

**(c) Geographic information**

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the goods were delivered.

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
The People's Republic of China (the "PRC")	927,744	595,095
Thailand	58,056	16,898
South Korea	6,842	13,233
	<b>992,642</b>	<b>625,226</b>

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

## 5 OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest income	910	1,426
Net foreign exchange (loss)/gain	(908)	1,489
Government grants	27	783
Net loss on disposal of property, plant and equipment	(6)	(32)
Others	114	51
	<u>137</u>	<u>3,717</u>

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest on bank and other loans	10,745	7,741
Interest on lease liabilities	735	576
	<u>11,480</u>	<u>8,317</u>

### (b) Staff costs

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Salaries, wages and other benefits	23,242	19,668
Contributions to defined contribution retirement plan	1,503	275
	<u>24,745</u>	<u>19,943</u>



(c) **Other items**

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Depreciation and amortisation		
– owned property, plant and equipment	<b>20,483</b>	23,559
– right-of-use assets	<b>1,421</b>	917
Cost of inventories	<b>868,061</b>	577,425

**7 INCOME TAX**

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Current taxation</b>		
PRC Corporate Income Tax:		
– Provision for the period	<b>11,016</b>	2,513
– (Over)/under-provision in respect of prior years	<b>(62)</b>	478
	<b>10,954</b>	2,991
Hong Kong Profits Tax:		
– Provision for the period	<b>129</b>	233
	<b>11,083</b>	3,224
<b>Deferred taxation</b>		
Reversal and origination of temporary differences	<b>(1,717)</b>	(1,920)
	<b>9,366</b>	1,304

*Notes:*

- (i) The Company and a subsidiary of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective jurisdictions of incorporation.
- (ii) The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate according to the two-tiered profits tax rate regime from the year of assessment 2020/21 onwards. The profits tax rate for the first Hong Kong Dollar (“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 subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2021 (six months ended 30 June 2020: 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 enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was qualified as a HNTE and was entitled to the preferential tax rate of 15% for the three calendar years ended 31 December 2018, 2019 and 2020. The provision for PRC Corporate Income Tax for this subsidiary was calculated at the same basis in 2021.

## 8 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2021 is calculated based on the profit attributable to the equity shareholders of the Company of RMB64,394,000 (six months ended 30 June 2020: RMB10,563,000) and the weighted average of 606,252,000 (six months ended 30 June 2020: 606,252,000) ordinary shares in issue during the interim period.

### (b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2021 and 2020.

## 9 TRADE AND BILLS RECEIVABLES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Trade receivables, net of loss allowance	165,778	174,215
Bills receivables	547,153	511,088
	<u>712,931</u>	<u>685,303</u>

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 acceptance notes received from customers with maturity dates of less than six months.

(a) **Ageing analysis**

The ageing analysis of trade receivables, based on the dates of revenue recognition and net of loss allowance, is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Less than 1 month	132,867	139,943
1 to 3 months	32,495	33,816
3 to 6 months	173	81
Over 6 months	243	375
	<u>165,778</u>	<u>174,215</u>

(b) At 30 June 2021, the Group has discounted certain of the bank acceptance notes it received from customers at banks, and endorsed certain of the bank acceptance notes it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are of high credit standings and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 30 June 2021, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the notes on maturity dates amounted to RMB109,069,000 (31 December 2020: RMB96,789,000).

(c) At 30 June 2021, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB289,271,000 (31 December 2020: RMB286,706,000). These bills receivables were not derecognised as the Group remains exposed to the credit risk of these receivables. The carrying amount of the associated bank loans and trade payables amounted to RMB289,271,000 (31 December 2020: RMB286,706,000).

At 30 June 2021, bills receivables of the Group with carrying amount of RMB54,721,000 (31 December 2020: RMB52,161,000) were pledged as collaterals for bills issued by the Group (see Note 10).

**10 TRADE AND BILLS PAYABLES**

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Trade and bills payables:		
– Trade payables	78,218	87,949
– Bills payables	467,297	485,578
	<u>545,515</u>	<u>573,527</u>
Contract liabilities:		
– Receipts in advance from customers	14,077	14,704
	<u>559,592</u>	<u>588,231</u>

At the end of the reporting period, the ageing analysis of trade and bills payables, based on the invoice dates, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	262,467	293,393
Between 3 to 6 months	276,851	274,523
Over 6 months	6,197	5,611
	<u>545,515</u>	<u>573,527</u>

## 11 BANK AND OTHER LOANS

(a) The Group's short-term bank and other loans is analysed as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment ( <i>Note (i)</i> )	38,000	68,000
– Secured by bills receivables	57,835	17,260
– Guaranteed by third parties	40,000	40,000
– Unsecured and unguaranteed	166,400	141,000
	<u>302,235</u>	266,260
Loans from other financial institutions:		
– Secured by bills receivables	205,700	244,890
	<u>507,935</u>	<u>511,150</u>

*Note:*

- (i) At 30 June 2021, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB55,829,000 (31 December 2020: RMB57,053,000).
- (b) At 30 June 2021, the banking facilities of the Group amounted to RMB665,000,000 (31 December 2020: RMB625,000,000) were secured by the Group's property, plant and equipment, and/or guaranteed by third parties, or unsecured and unguaranteed. These facilities were utilised to the extent of RMB462,400,000 at 30 June 2021 (31 December 2020: RMB496,950,000).

## 12 DIVIDENDS

### (a) Dividends

- (i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: RMBNil).

- (ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved during the interim period

	<b>Six months ended 30 June</b>	
	<b>2021</b>	<b>2020</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$0.038 per ordinary share (six months ended 30 June 2020: HK\$0.008 per ordinary share)	<b>19,256</b>	4,344

## 13 COMMITMENTS

Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report:

	<b>At 30 June 2021 RMB'000</b>	<b>At 31 December 2020 RMB'000</b>
Commitments in respect of property, plant and equipment:		
– Contracted for	<b>47,387</b>	29,155
– Authorised but not contracted for	<b>32,136</b>	54,950
	<b>79,523</b>	84,105

The above commitments represent the Group's planned expansion of its production facilities.

## 14 IMPACTS OF COVID-19 PANDEMIC

The Covid-19 pandemic since early 2020 continues to bring uncertainties to the Group's operating environment and may impact the Group's operations and financial position.

Despite of the easing of the Covid-19 pandemic in Mainland China, the Group continues to closely monitor the possible impact of the Covid-19 pandemic has on the Group's businesses and keep contingency measures in place and under review in the case where the Covid-19 pandemic rebounds. The directors of the Company confirm that these contingency measures include but not limited to reassessing the fluctuation to the demand and selling prices of the Group's steel products in light of the fluctuations in the purchase prices of raw materials, reassessing the sustainability of existing suppliers and/or expanding the supplier base of raw materials to ensure the Group to meet customers' demands, negotiating with customers on possible delay in delivery timetables, improving the Group's cash management by expediting debtor settlements, and negotiating with suppliers on extension of payment terms.

As far as the Group's businesses are concerned, the Covid-19 pandemic may impact the demand of the Group's steel products which in turn may result in the decrease in sales of such products and/or impact the scarcity of raw materials which in turn may result in the increase in purchase prices of raw materials, and hence the profitability of the Group's operations and the potential impairment of the Group's production facilities in future periods. Such possible decrease in the demand of the Group's products may be a result of the customers' deteriorating operations which may increase the impairment risks of related debtors in future periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is a leading midstream galvanized steel products manufacturer in the home appliance sector in Jiangsu Province, the PRC. The Group is primarily engaged in the production and sales of cold rolled steel products, unpainted galvanized steel products and painted galvanized steel products to mainly midstream steel product processors for further processing and to home appliance manufacturers for production of home appliances such as refrigerators, washing machines and ovens. The Group has well-equipped facilities and production lines, enabling the Group to provide the customers with pickled rolls, cold-rolled steel, unpainted galvanized steel and painted galvanized steel products.

For the six months ended 30 June 2021, the Group recorded a revenue amounting to RMB992,642,000, an increase of RMB367,416,000 or 58.8% compared with that of the corresponding period in 2020.

For the six months ended 30 June 2021, the sales volume of our cold rolled steel products and galvanized steel products totalled 147,811 tonnes, representing an increase of 30,113 tonnes or 25.6% compared with 117,698 tonnes for the corresponding period in 2020. In particular, the sales volume of our cold rolled steel products and galvanized steel products were 8,822 tonnes and 138,989 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 97,393 tonnes and 41,596 tonnes respectively, representing an increase of 20,510 tonnes for unpainted galvanized steel products and 9,035 tonnes for painted galvanized steel products as compared with the corresponding period in 2020.

During the first half of 2021, the robust market demand at the end of 2020 continued, contributing to the substantial growth in the sales volume of our products as compared with the corresponding period in 2020. Meanwhile, alongside the ongoing price rise in hot-rolled coils, which are one of our major raw materials, the selling prices of our products also went up, which in turn led to the substantial increase in our sales revenue. Robust market demand drove up the per-unit selling prices of our products considerably as compared with the corresponding period in 2020, which in turn contributed to the increase in our gross profit margin to 12.6% from 7.6% in the corresponding period in 2020. Facing the remarkable increase in raw material prices, we adopted effective measures and adjusted the inventory level of our raw materials in a timely manner, thereby effectively guarding ourselves against risks.

## **PROSPECTS**

Our production capacity expansion project has commenced and is currently underway in an orderly manner as planned; construction of factories is in progress while procurement of relevant production equipment has been completed. We anticipate that the construction of factories can be completed by October 2021, at which point installation of production equipment can start. It is our goal that the new production line can be put to use as soon as possible.

The new factories will uplift our production capacity of painted galvanized steel products and in turn drive up the sales volume of these products. The new colour coating line adopts more advanced emission treatment installations that can effectively reduce the emission of hazardous gases for better environmental protection. At the same time, smart equipment will be extensively used in the new factories, including a slitting and cutting system that makes cutter replacements fully automatic, as well as 3D smart storage. The use of all these equipment will further uplift our production efficiency, enhance product quality, and reduce production costs.

In active response to China's policy of hitting peak emissions and attaining carbon neutrality by targeted timelines, we are in the process of introducing energy management system and planning to utilize 5G technology for real-time management of energy consumption at different production units, for more precise cost control as well as energy saving and emission reduction.

## **FINANCIAL REVIEW**

### **Financial Results**

#### **Revenue**

Revenue of the Group is primarily generated from the sales of hard steel coil and hot-dip galvanized steel products. For the six months ended 30 June 2021, the total revenue of the Group amounted to approximately RMB992,642,000, representing an increase of approximately 58.8% from approximately RMB625,226,000 for the six months ended 30 June 2020. The increase in the Group's revenue was primarily attributable to the increase in the sales volume and average selling prices of the Group's products. The overall sales volume for the six months ended 30 June 2021 was 147,811 tonne, representing an increase of 25.6% when compared to that in the same period in the previous year. The overall average selling price of our products for the current period recorded an increase of 26.4% when compared to that in the same period in the previous year.

An analysis of the Group's revenue, sales volume and average selling price by products in the six months ended 30 June 2021 and 2020 is as follows:

	Six months ended 30 June								
	2021			2020			Change		
	Revenue <i>RMB'000</i>	Sales volume <i>tonnes</i>	Average selling price <i>RMB/tonne</i>	Revenue <i>RMB'000</i>	Sales volume <i>tonnes</i>	Average selling price <i>RMB/tonne</i>	Revenue <i>%</i>	Sales volume <i>%</i>	Average selling price <i>%</i>
<b>Cold rolled steel products</b>									
Hard steel coil	47,385	8,822	5,371	35,124	8,254	4,255	+34.9%	+6.9%	+26.2%
Hot-dip galvanized steel products	945,257	138,989	6,801	590,102	109,444	5,392	+60.2%	+27.0%	+26.1%
– unpainted galvanized steel products	620,735	97,393	6,374	384,423	76,883	5,000	+61.5%	+26.7%	+27.5%
– painted galvanized steel products	324,522	41,596	7,802	205,679	32,561	6,317	+57.8%	+27.7%	+23.5%
Total	<b>992,642</b>	<b>147,811</b>	<b>6,716</b>	<b>625,226</b>	<b>117,698</b>	<b>5,312</b>	<b>+58.8%</b>	<b>+25.6%</b>	<b>+26.4%</b>

### Gross profit and gross profit margin

For the six months ended 30 June 2021, gross profit of the Group amounted to approximately RMB124,581,000 (six months ended 30 June 2020: approximately RMB47,801,000). The overall gross profit margin increased from 7.6% in 2020 to 12.6% in 2021. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in the six months ended 30 June 2021 and 2020 is as follows:

	Six months ended 30 June			
	2021		2020	
	Gross profit <i>RMB'000</i>	Gross profit margin <i>%</i>	Gross profit <i>RMB'000</i>	Gross profit margin <i>%</i>
<b>Cold rolled steel products</b>				
Hard steel coil	3,663	7.7%	2,330	6.6%
Hot-dip galvanized steel products	120,918	12.8%	45,471	7.7%
– unpainted galvanized steel products	68,582	11.0%	22,952	6.0%
– painted galvanized steel products	52,336	16.1%	22,519	10.9%
Total	<b>124,581</b>	<b>12.6%</b>	<b>47,801</b>	<b>7.6%</b>



An increase in the overall gross profit margin of the Group was mainly due to the combined effect of increase of average selling prices of our products and effective cost management on the raw materials during the current period.

### **Other income**

Other income of the Group amounted to approximately RMB137,000 for the six months ended 30 June 2021, representing a decrease of RMB3,580,000 from approximately RMB3,717,000 in the corresponding period in 2020. The decrease was mainly attributable to decrease in bank interest income and foreign exchange gain.

### **Selling and distribution expenses**

Selling and distribution expenses of the Group increased from RMB21,984,000 in the six months ended 30 June 2020 to approximately RMB29,858,000 in the corresponding period in 2021. The increase was mainly due to the increase in transportation expenses as a result of increase in sales volumes.

### **Administrative expenses**

Administrative expenses of the Group for the six months ended 30 June 2021 amounted to approximately RMB9,552,000 which is comparable to that of approximately RMB9,303,000 in the corresponding period in 2020.

### **Finance costs**

Finance costs of the Group increased from approximately RMB8,317,000 in the six months ended 30 June 2020 to approximately RMB11,480,000 in the corresponding period in 2021. The increase was mainly due to the increase in interest on discounted bills.

### **Profit before taxation**

Profit before taxation of the Group increased significantly from approximately RMB11,867,000 in the six months ended 30 June 2020 to approximately RMB73,760,000 in the corresponding period in 2021.

### **Income tax**

Income tax expenses of the Group increased from approximately RMB1,304,000 in the six months ended 30 June 2020 to approximately RMB9,366,000 in the six months ended 30 June 2021. A subsidiary of the Company in the PRC was entitled to the preferential income tax rate of 15% from 2018 to 2020 as it obtained the status of High and New Technology Enterprise (“**HNTE**”) from relevant tax authority at the end of 2018. The status of HNTE is being renewed at the moment and the provision for PRC Corporate Income Tax for this subsidiary was calculated at the same basis for the current period.

## **Profit for the period**

As a result of the foregoing, the profit of the Group for the period increased from approximately RMB10,563,000 for the six months ended 30 June 2020 to approximately RMB64,394,000 for the corresponding period in 2021. The net profit margin of the Group for the six months ended 30 June 2021 amounted to approximately 6.5% (six months ended 30 June 2020: 1.7%).

## **Liquidity and financial resources**

As at 30 June 2021, the Group had cash at bank and on hand of approximately RMB274,874,000 (31 December 2020: approximately RMB243,545,000). As at 30 June 2021, the restricted bank deposits placed at banks as collaterals for bills issued by the Group amounted to approximately RMB99,030,000 in aggregate, comparable to approximately RMB85,050,000 as at 31 December 2020. The Board will ensure sufficient liquidity at any time to meet its matured liabilities.

## **Net current asset**

The Group recorded net current assets of approximately RMB475,023,000 as at 30 June 2021 (31 December 2020: approximately RMB429,193,000). The current ratio, calculated by dividing the current assets by current liabilities, was approximately 1.4 as at 30 June 2021 (31 December 2020: approximately 1.4).

## **Borrowings and pledge of assets**

As at 30 June 2021, the Group had bank and other loans amounted to approximately RMB507,935,000 (31 December 2020: approximately RMB511,150,000), of which approximately RMB38,000,000 was secured by the Group's property, plant and equipment, and approximately RMB263,535,000 was secured by bills receivables. All borrowings shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total borrowing which includes all interest-bearing loans and amounts due to related parties under accrued expenses and other payables by total equity of the Group, as at 30 June 2021 was approximately 0.7 (31 December 2020: approximately 0.7).

## **Capital structure**

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination of its cash and cash equivalents, cash flows generated from operations, bank facilities, and net proceeds from the initial public offering of the Company. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, credit facilities available and interest bearing borrowings which enable the Group to continue its operation.

## **Contingent liabilities**

As at 30 June 2021, the Group did not have any material contingent liabilities.

## **Financial risks**

The Group is exposed to various financial risks, including foreign currency risk, interest rate risk and credit risk in the normal course of its business.

### *– Foreign currency risk*

Most of the Group's businesses are settled in Renminbi. However, the Group's sales to overseas customers are settled in foreign currencies. For the first half of 2021, approximately 93.5% of the Group's revenue was settled in Renminbi and approximately 6.5% was settled in foreign currencies.

Exchange rate fluctuations will affect sales revenue settled in foreign currencies, which in turn may have adverse effects on the Group. The Group does not hedge against foreign currency risk by using any derivative contracts. The management of the Group manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency risk should the need arise.

### *– Interest rate risk*

The Group's interest rate risks primarily arise from fixed rate bank deposits and borrowings. The Group currently does not use any derivative contracts to hedge against its interest rate risks.

### *– Credit risk*

The Group's credit risks primarily arise from trade and other receivables.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2021, the Group had approximately 499 employees, including executive Directors. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical insurance, mandatory provident fund scheme, local municipal government retirement scheme and education subsidy to encourage continuous professional development of staff.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

The Group did not have material acquisitions and disposal of subsidiaries and associated companies for the six months ended 30 June 2021.

## **FUTURE PLANS FOR SIGNIFICANT INVESTMENTS AND CAPITAL ASSETS**

Apart from that disclosed in the section headed "Use of net proceeds from Listing" in this announcement, the Group did not have any plans for any other significant investments and capital assets.

## **INTERIM DIVIDEND**

The Board of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2021.

## **SUBSEQUENT EVENTS AFTER 30 JUNE 2021**

There were no major subsequent events since 30 June 2021 and up to the date of this announcement.

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

The Board has established the audit committee (the “**Audit Committee**”) which comprises three independent non-executive Directors, namely Mr. Li Yuen Fai Roger, Mr. Cao Baozhong and Mr. Yang Guang. The primary duties of the Audit Committee are to review and supervise the Company’s financial reporting process and internal controls.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2021 has been reviewed by the Audit Committee of the Company. The Audit Committee was satisfied that the Group’s unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the current period and that adequate disclosures had been made.

## **USE OF NET PROCEEDS FROM LISTING**

The shares of the Company were listed on the Stock Exchange on 19 November 2018 and the net proceeds raised from this initial public offering (including the exercise of the over-allotment option on 12 December 2018) after deducting professional fees, underwriting commissions and other related listing expenses amounted to approximately RMB107,086,000 (the “**IPO Proceeds**”).

As stated in the prospectus of the Company dated 31 October 2018 (the “**Prospectus**”), the intended uses of the IPO Proceeds are set out as follows:

1. approximately 96.1% of the IPO Proceeds, other than the proceeds from over-allotment option (as described in the Prospectus), will be used for construction of the buildings, production facilities and equipment and installation of hot-dip galvanization line to expand the production capacity and increase the production efficiency;
2. approximately 3.9% of the IPO Proceeds, other than the proceeds from over-allotment option, will be used to repay a bank loan at an interest rate of 5.76% per annum which was due for repayment in December 2018; and
3. proceeds from the over-allotment option will be used to repay outstanding loans.

On 7 December 2020, the Board announced that the Company decided to reallocate RMB18,490,000 of the IPO Proceeds to acquire two adjacent parcels of land with a total site area of approximately 44,763.1 sq.m. which are approximately 600 metres away from the headquarters and the existing production capacity of the Group instead of renting lands to accommodate the planned new production line. The lands acquisition consideration was fully paid in January 2021.

On 10 May 2021, the Board announced that in view of the painted galvanized steel products have a relatively higher gross profit margin and utilization rate of the existing colour coating line almost reaches its full capacity, the Company decided to reallocate RMB29,500,000 of the IPO Proceeds to fund the purchase of a new composite coating intellectual colour coating production line.

As at 30 June 2021, the Group had utilized the IPO Proceeds as set out in the table below:

	IPO Proceeds	Utilized up to 31 December 2019	Revised allocation for lands acquisition	Utilized during the year ended 31 December 2020	Revised allocation for colour coating line	Utilized during the period from 1 January 2021 to 30 June 2021	Unutilized balance as at 30 June 2021	Intended timetable for use of the unutilized proceeds
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
To expand the production capacity of the hot-dip galvanization line	97,683	-	(18,490)	-	(29,500)	(8,150)	41,543	By/before 31 December 2021
To expand the production capacity of the colour coating line	-	-	-	-	29,500	(8,850)	20,650	By/before 31 December 2021
To acquire lands to accommodate the new production line	-	-	18,490	(1,000)	-	(17,490)	-	Not applicable
To repay a bank loan due for repayment in December 2018	3,964	(3,964)	-	-	-	-	-	Not applicable
To repay outstanding loans	5,439	(5,439)	-	-	-	-	-	Not applicable
<b>Total</b>	<b>107,086</b>	<b>(9,403)</b>	<b>-</b>	<b>(1,000)</b>	<b>-</b>	<b>(34,490)</b>	<b>62,193</b>	

The unutilized balance of the net proceeds was placed with banks as at 30 June 2021.

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

The Company is committed to maintaining a high standard of corporate governance practices as we believe that effective corporate governance practices are fundamental to safeguarding the interests of its shareholders and other stakeholders, and to enhancing shareholder value.

In the opinion of the Board of the Company, throughout the six months ended 30 June 2021, the Company has complied with the code provisions set out in the Corporate Governance Code under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

## **PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S SHARES**

The Company has not redeemed any of its securities during the six months ended 30 June 2021. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s securities during the six months ended 30 June 2021.

## **MODEL CODE FOR DIRECTOR’S SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ dealing in the securities of the Company. The Company has made specific enquiry of all Directors and confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

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

This interim results announcement is published on the websites of the Stock Exchange at ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company at ([www.jnppmm.com](http://www.jnppmm.com)). The interim report for the six months ended 30 June 2021 containing all information required by the Listing Rules will be dispatched to the Company’s shareholders and available on the above websites in due course.

By Order of the Board  
**KangLi International Holdings Limited**  
**Liu Ping**  
*Chairman*

Hong Kong, 27 August 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.*