KANGLI INTERNATIONAL HOLDINGS LIMITED
康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 6890

2021
ANNUAL REPORT

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Mei Zefeng
Ms. Liu Ping *(Chairman)*
Mr. Zhang Zhihong *(Chief Executive Officer)*
Ms. Lu Xiaoyu
Mr. Xu Chao

Independent Non-executive Directors

Mr. Lau Ying Kit
Mr. Cao Baozhong
Mr. Yang Guang

COMPANY SECRETARY

Mr. Chung Yau Tong

AUDIT COMMITTEE

Mr. Lau Ying Kit *(Chairman)*
Mr. Cao Baozhong
Mr. Yang Guang

REMUNERATION COMMITTEE

Mr. Cao Baozhong *(Chairman)*
Mr. Lau Ying Kit
Mr. Yang Guang
Mr. Zhang Zhihong

NOMINATION COMMITTEE

Ms. Liu Ping *(Chairman)*
Mr. Lau Ying Kit
Mr. Cao Baozhong
Mr. Yang Guang

REGISTERED OFFICE

Cricket Square, Hutchins Drive
PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE PRC)

Wuyi County, Hengshanqiao Town
Wujin District, Changzhou City
Jiangsu Province, the PRC

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

Suite 812, 8/F, Ocean Centre
Harbour City, 5 Canton Road
Tsim Sha Tsui, Kowloon, Hong Kong

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

HONG KONG LEGAL ADVISER

Wan & Tang
2408, World-Wide House
19 Des Voeux Road Central, Central, Hong Kong

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.jnpmm.com

LISTING INFORMATION

The Company's ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
(Stock Code: 6890.HK)

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors of KangLi International Holdings Limited ("KangLi International Holdings" or the "Company") and its subsidiaries (collectively known as the "Group"), I am pleased to present the audited annual report for the year ended 31 December 2021 (the "Year") for shareholders' review.

REVIEW

Year 2021 was the first year of China's 14th Five-year Plan period, and also the second year after the outbreak of COVID-19 pandemic, when China entered a stage of normalization in the prevention and control of the pandemic. Despite scattering of the pandemic in some regions, our production and operation was never materially affected in general. Under China's policies of peaking carbon emissions and attaining carbon neutrality, the production capacity of steel has been further constrained, which coupled with the rapid growth in demand for export of steel products to keep steel prices at high level, and thus a remarkable increase in the raw material costs of the Company. With reasonable increase of selling prices and by maintaining sales volume, the Company managed to deliver substantial growth in sales revenue.

In 2021, the Group's total revenue amounted to approximately RMB2,035,409,000, representing an increase of approximately 26.7% from approximately RMB1,606,146,000 in 2020. The annual average selling price of our cold rolled steel products increased from RMB4,367 per tonne in 2020 to RMB5,673 per tonne in 2021. Annual average selling prices of unpainted galvanized steel products and painted galvanized steel products increased by RMB1,435 per tonne and RMB1,322 per tonne from year 2020 respectively.

In 2021, the Group's gross profit increased by approximately RMB57,731,000 or 32.7% from approximately RMB176,470,000 in 2020 to approximately RMB234,201,000 in 2021. Gross profit margin increased from approximately 11.0% in 2020 to approximately 11.5% in 2021.

In April 2021, our production capacity expansion project duly commenced and was drawing to its end as at the end of December 2021, after eight months of construction. Construction of factories has been essentially completed, and production lines are currently at the stage of installation and testing. Meanwhile, environmental impact assessment, energy assessment and so forth have been completed and the factories are ready for production. To cater to the requirements of energy saving and emission reduction, the Company has invested heavily on environmental facilities and equipment to ensure that new production lines meet and outperform the existing management standards in emission control. At the same time, smart equipment has been extensively used in the new factories, including a slitting and cutting system that makes cutter replacements fully automatic and robot-controlled, AGV smart vehicles, 3D smart storage and so forth.

At the end of 2021, the Company entered into 5G+ industrial internet digitalization management project agreement with the Changzhou company of China Unicom. With the 5G data platform, the Company seeks to create a standardized, scientific and advanced management team and management system, to solve the problems of non-standardized, unsystematic and non-quantitative management in the past. Real-time control has been made possible over data from the day-to-day operations of different departments, workshops and equipment units; cost calculation for products can be done on the data platform, and product mix can be optimized. Conducting pilot applications at our existing factories, we look forward to building a 5G smart factory.

PROSPECTS

The steel industry is one of those that have the largest carbon emissions. Low-carbon green development will be a key mission that the steel industry must continue to achieve in the future. With the policy of peaking carbon emissions and attaining carbon neutrality, the crux of the supply-side reform of the steel industry will be "carbon reduction", irrespective of whether it is "the dual control of production capacity and production volume" or "the dual control of total volume and intensity of carbon emissions". It is anticipated that the industry will see a new round of structural optimization. By then, steel prices will be at relatively high level. As the Company is a downstream player in the steel industry, high steel prices will imply higher selling prices and this will favour the further increase in sales revenue.

In 2021, retail sales of white goods maintained stable growth. From January to November, the sales amount of white goods accounted for 20.2% of the overall technology consumer electronics market, growing by 14.8% year on year. When the COVID-19 pandemic further dwindles and in turn the global economy recovers gradually, we have reasons to believe that white goods will see sustainable and stable growth in demand.

For the capacity expansion project of the Company, it is anticipated that trial production will begin in April 2022 and mass production should follow at some point subsequently. Upon full utilization of the new production lines, it is expected that an additional capacity of 100,000 tonnes of painted galvanized steel products per year will come on stage, further uplifting the sales revenue of the Company. Painted galvanized steel products command the highest gross profit margin among all existing products of the Company. An increase in production capacity will help raise the profitability of the Company. The sales team of the Company will endeavour to secure sufficient sales orders for the new production lines, to lay a solid foundation for the future business development of the Company.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to our shareholders, investors and business partners for their trust and support. My gratitude also goes to all of our Board members, the senior management and the employees for their hard work and contribution to the Group. Going forward, we will endeavour to carry on with the Group's development and seek stable return to the shareholders.

Liu Ping
Chairman
Hong Kong, 25 March 2022

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 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 the production capability of pickled rolls, cold-rolled steel, unpainted galvanized steel and painted galvanized steel products along the whole industry chain.

For the year ended 31 December 2021, the Group recorded a revenue amounting to approximately RMB2,035,409,000, an increase of 26.7% compared with that of the corresponding period in 2020.

For the year ended 31 December 2021, the sales volume of our cold rolled steel products and galvanized steel products totaled approximately 293,900 tonnes, representing an increase of approximately 3,500 tonnes or 1.2% as compared with approximately 290,400 tonnes for the year ended 31 December 2020. During the review period, the sales volume of our cold rolled steel products and galvanized steel products were approximately 17,700 tonnes and approximately 276,200 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were approximately 190,300 tonnes and approximately 85,900 tonnes respectively. For our unpainted galvanized steel products, the sales volume increased by 2.1% and the average selling price increased substantially. For our painted galvanized steel products, the sales volume increased by approximately 500 tonnes or 0.6% from approximately 85,400 tonnes recorded in the year ended 31 December 2020. With an upsurge in raw material prices, the unit selling prices of cold rolled steel products and galvanized steel products increased substantially, which contributed to the substantial increase in our sales revenue given the slight increase in our total sales volume.

During the 14th Five-year Plan period, supply-side structural reform remained the keynote of the development of the steel industry. To foster the high-quality development of the steel industry, a series of supporting policies were introduced by the relevant government authorities in China in 2021. Despite weak consumption of steel in China, the strong export demand coupled with the influence of the policies of peaking carbon emissions and attaining carbon neutrality, steel prices remained at high level in year 2021. The selling prices of the Company's products went up correspondingly, with remarkable growth in prices of different types of products compared to that in year 2020. As such, our sales revenue for the year 2021 increased substantially. During the year 2021, gross profit margin also grew by 0.5% as a whole, and by 2.9% for our painted galvanized steel products in particular.

FINANCIAL REVIEW

A comparison of the financial results of the Group in 2021 and 2020 is set out as follows.

Financial Performance Highlights

	2021 ***RMB'000***	2020 *RMB'000*
Key financial information		
– Revenue	**2,035,409**	1,606,146
– Gross profit	**234,201**	176,470
– Profit for the year	**98,097**	72,411
– Earnings per share *(RMB)*	**0.16**	0.12
Key performance ratios		
– Gross profit margin	**11.5%**	11.0%
– Net profit margin	**4.8%**	4.5%
– Return on equity	**12.9%**	10.6%
– Current ratio	**1.4**	1.4
– Gearing ratio	**0.7**	0.7

Revenue

Revenue of the Group is primarily generated from the sale of hard steel coil and hot-dip galvanized steel products. For the year ended 31 December 2021, the total revenue of the Group amounted to approximately RMB2,035,409,000, representing an increase of approximately 26.7% from approximately RMB1,606,146,000 for the year ended 31 December 2020. During the year, the sales volume of hard steel coil was 17,698 tonnes, representing a drop of approximately 4.6% when compared to the previous year, but the sales volume of galvanized steel products for the year ended 31 December 2021 was 276,237 tonnes, representing an increase of approximately 1.6%. The overall sales volume for the current year recorded an increase of approximately 1.2%. The average selling price of different products recorded an increase of approximately 20%-30%. The overall average selling price recorded an increase of approximately 25.2% when compared to that in the previous year which is the major reason of increase in turnover in current year.

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

	Year ended 31 December								
	2021			2020			Change		
	Revenue RMB'000	Sales volume tonnes	Average selling price RMB/tonne	Revenue RMB'000	Sales volume tonnes	Average selling price RMB/tonne	Revenue %	Sales volume %	Average selling price %
Cold Rolled Steel Products									
Hard steel coil	100,400	17,698	5,673	80,994	18,545	4,367	24.0%	–4.6%	29.9%
Hot-dip galvanized steel products	1,935,009	276,237	7,005	1,525,152	271,885	5,610	26.9%	1.6%	24.9%
– unpainted galvanized steel products	1,258,625	190,332	6,613	965,399	186,455	5,178	30.4%	2.1%	27.7%
– painted galvanized steel products	676,384	85,905	7,874	559,753	85,430	6,552	20.8%	0.6%	20.2%
Total	2,035,409	293,935	6,925	1,606,146	290,430	5,530	26.7%	1.2%	25.2%

Gross profit and gross profit margin

For the year ended 31 December 2021, gross profit of the Group amounted to approximately RMB234,201,000 (2020: approximately RMB176,470,000). Overall gross profit margin increased slightly from approximately 11.0% in 2020 to approximately 11.5% in 2021. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in 2021 and 2020 is as follows:

	Year ended 31 December					
	2021			2020		
	Gross profit RMB'000	Proportion %	Gross profit margin %	Gross profit RMB'000	Proportion %	Gross profit margin %
Cold Rolled Steel Products						
Hard steel coil	6,137	2.6%	6.1%	5,549	3.1%	6.9%
Hot-dip galvanized steel products	228,064	97.4%	11.8%	170,921	96.9%	11.2%
– unpainted galvanized steel products	111,256	47.5%	8.8%	90,146	51.1%	9.3%
– painted galvanized steel products	116,808	49.9%	17.3%	80,775	45.8%	14.4%
Total	234,201	100.0%	11.5%	176,470	100.0%	11.0%

Other (loss)/income

The balance comprises mainly interest income, government grants and exchange gain or loss. The balance in 2020 was a net income of approximately RMB769,000 while the balance in 2021 was an other loss of approximately RMB271,000. The change was mainly attributable to decrease of interest income and government grants in current year which is not able to cover the exchange loss incurred in current year.

Selling expenses

Selling and distribution expenses of the Group increased from approximately RMB52,567,000 in 2020 to approximately RMB55,233,000 in 2021. The increase was mainly due to the increase in transportation expenses as a result of increase in export sales volume.

Administrative expenses

Administrative expenses of the Group increased slightly from approximately RMB19,290,000 in 2020 to approximately RMB20,322,000 in 2021.

Finance costs

Finance costs of the Group increase from approximately RMB20,281,000 in 2020 to approximately RMB22,943,000 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 from approximately RMB84,837,000 in 2020 to approximately RMB134,647,000 in 2021.

Income tax

Income tax expenses of the Group increased significantly from approximately RMB12,426,000 in 2020 to approximately RMB36,550,000 in 2021. The significant increment is mainly due to a major operating subsidiary of the Group established in the PRC was not qualified as a High and New Technology Enterprise for the current year and the PRC Corporate Income Tax rate entitled by this subsidiary increased from 15% in 2020 to 25% in 2021.

Profit for the year

As a result of the foregoing, profit for the year of the Group increased from approximately RMB72,411,000 in 2020 to approximately RMB98,097,000 in 2021. Net profit margin of the Group increased from approximately 4.5% in 2020 to approximately 4.8% in 2021. The return on equity, calculated by dividing net profit for the year by total equity at the end of the year, as at 31 December 2021, was approximately 12.9% (2020: approximately 10.6%).

Liquidity and financial resources

As at 31 December 2021, the Group had approximately RMB216,064,000 (2020: approximately RMB243,545,000) cash at bank and on hand. As at 31 December 2021, the restricted deposit placed at banks as collaterals for bills issued by the Group amounted to approximately RMB80,946,000 (2020: approximately RMB85,050,000), representing an decrease of approximately 4.8%. The drop was attributable to the decrease in the deposits placed at banks as collaterals for bills issued by the Group.

Net current assets

The Group recorded net current assets of approximately RMB447,061,000 as at 31 December 2021, representing an increase of approximately 4.2% as compared with approximately RMB429,193,000 as of 31 December 2020. The current ratio, calculated by dividing the current assets by current liabilities, was approximately 1.4 as of 31 December 2021 (2020: approximately 1.4). The net current assets and current ratio in 2020 and 2021 were comparable and remained healthy.

Borrowings and pledge of assets

As at 31 December 2021, the Group had bank and other loans amounting to approximately RMB503,927,000 (2020: approximately RMB511,150,000), of which approximately RMB68,000,000 was secured by the Group's property, plant and equipment and approximately RMB238,927,000 was secured by bills receivables. All borrowings are denominated in RMB and shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total bank and other loans by total equity of the Group, was approximately 0.7 and 0.7 as at 31 December 2021 and 2020 respectively.

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.

Contingent liabilities

As at 31 December 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 risks**

  Most of the Group's businesses are settled in RMB. However, the Group's sales to overseas customers are settled in foreign currencies. In 2021, approximately 90.8% of the Group's revenue was settled in RMB and approximately 9.2% 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 foreign 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 risks**

  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 risks**

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2021.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 509 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Mei Zefeng (梅澤鋒先生), aged 44, was appointed as our executive Director on 21 December 2017.

Mr. Mei graduated from Nanjing University (南京大學), the PRC in July 2000 with a undergraduate diploma in Electronic Engineering. He also obtained a postgraduate diploma of marketing management from University of Derby, the United Kingdom in November 2004. As a founder of our Group, Mr. Mei had been serving as the general manager and an executive director of Jiangnan Precision from July 2003 to December 2007 and from July 2003 to September 2017, respectively. He has been appointed as the chairman of Jiangnan Precision since October 2017. Mr. Mei has been primarily responsible for overall strategic planning, operations and management of our Group.

Mr. Mei has over 19 years of experience in the steel processing industry. He has been serving as the chairman of Jiangnan Industrial Group since January 2007. He has been appointed as the supervisor of Jiangnan Rural Commercial Bank (江南農村商業銀行), a company principally engages in banking and financial services since January 2010. Mr. Mei received numerous awards in the past including "Outstanding Entrepreneur" of Wujin District (武進區"優秀企業家"), Star Industrial Entrepreneur of Changzhou City (常州市工業明星企業家) and Top 10 Outstanding Young Entrepreneur of Jiangsu Province (江蘇省十大傑出青年企業家).

Mr. Mei is the spouse of Ms. Liu, Chairman of the Company, the cousin-in-law of Mr. Xu, an executive director, and the cousin-in-law of Mr. Liu Yu, head of material procurement of the Group.

Ms. Liu Ping (劉萍女士), aged 42, is our Chairman and was appointed as our executive Director on 21 December 2017. She is also the chairman of the Nomination Committee.

Ms. Liu graduated from Jinling Vocational Institute (金陵職業大學) (currently known as Jinling Institute of Technology (金陵科技學院)), the PRC in July 2001 with a diploma in Business Administration. She further obtained a bachelor's degree of Business (International Business) from Queensland University of Technology, Australia in 2004. Ms. Liu joined our Group in October 2005 and served as the chief financial officer of Jiangnan Precision from October 2005 to September 2009. She has been appointed as the president of Jiangnan Precision since October 2009. Ms. Liu has been primarily responsible for overall operations and management of our Group. Ms. Liu has over 16 years of experience in financial control and enterprise management.

Ms. Liu is the spouse of Mr. Mei, the cousin of each of Mr. Xu Chao, an executive director, and Mr. Liu Yu, head of material procurement of the Group.

Mr. Zhang Zhihong (張志洪先生), aged 50, is our Chief Executive Officer and was appointed as our executive Director on 18 May 2018. He is also a member of the Remuneration Committee.

Mr. Zhang graduated from Shandong Continuing Education College of Technology (山東科技進修學院), the PRC with a degree in Industrial Electrification Technology (工業電氣化技術) in July 2011 through distance learning. Mr. Zhang joined our Group in May 2007 and served as the vice president of production and the head of procurement of Jiangnan Precision from May 2007 to July 2012 and from July 2012 to June 2014, respectively. He has been the general manager of Jiangnan Precision since June 2014 and is currently a director of Jiangnan Precision. Mr. Zhang is mainly responsible for production and operations management of our Group.

Mr. Zhang has over 22 years of experience in production and operations management in plastic and aluminium profile industry. Prior to joining our Group, Mr. Zhang worked as the factory manager in Jiangnan Chuangjia from January 1999 to June 2002. He also worked as the factory manager in Changzhou Huacai Construction Material Co., Limited (常州華彩建材有限公司), a company principally engages in production and sales of aluminium alloy profile, from July 2002 to April 2007.

Ms. Lu Xiaoyu (陸小玉女士), aged 46, was appointed as our executive Director on 18 May 2018.

Ms. Lu was awarded a bachelor's degree in Currency and Banking (貨幣銀行) from Nanjing Agricultural University (南京農業大學), the PRC in July 1999. Ms. Lu joined our Group in January 2005 as the manager of finance department (財務科長) of Jiangnan Precision and became the chief financial officer (財務總監) of Jiangnan Precision in January 2017. Ms. Lu is mainly responsible for overall financial management of our Group.

Prior to joining our Group, Ms. Lu worked as a cashier in Jiangnan Industrial Group from September 1999 to December 2004.

Mr. Xu Chao (許潮先生), aged 34, was appointed as our executive Director of our Company on 18 May 2018.

Mr. Xu was awarded a bachelor's degree in Technology and Instrument of Measurement and Control (測控技術與儀器) from Nanjing Normal University (南京師範大學), the PRC in July 2010. Mr. Xu joined Jiangnan Precision in September 2010 as a clerk at the human resources department. Mr. Xu was the head of sales of Jiangnan Precision from July 2011 to July 2017. He has been appointed as the secretary of the board of directors and assistant general manager of Jiangnan Precision since August 2017. Mr. Xu is mainly responsible for general administration of our Group.

He is the cousin of Ms. Liu, Chairman of the Company, and the cousin-in-law of Mr. Mei (an executive director of the Company).

Independent non-executive Directors

Mr. Lau Ying Kit (劉英杰先生), aged 48, was appointed as an independent non-executive Director on 20 December 2021. Mr. Lau is the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

Mr. Lau is currently the finance and investor relations director and company secretary of Dalipal Holdings Limited (Stock Code: 1921) and he is also an independent non-executive director of Kingdom Holdings Limited (Stock Code: 528), China Wood Optimization (Holding) Limited (Stock Code: 1885), United Strength Power Holdings Limited (Stock Code: 2337) and Sinco Pharmaceuticals Holdings Limited (Stock Code: 6833).

Mr. Lau is a fellow member of the Hong Kong Institute of Certified Public Accountants and holds a master's degree in finance from the City University of Hong Kong. He has extensive experience in financial and accounting in China and Hong Kong.

Mr. Cao Baozhong (曹寶忠先生), aged 80, was appointed as our independent non-executive Director on 25 October 2018. Mr. Cao is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

Mr. Cao obtained a graduation certificate in Market Economy Features and Development Trends (市場經濟特色和發展趨勢) from the Chinese Academy of Governance in 1997.

Mr. Cao has over 40 years of working experience, of which over 20 years focusing on administration and human resources management and his last position was the general manager of Nam Tung (Macau) Investment Ltd. (Bank of China Macau Branch) (澳門南通信託投資有限公司(中國銀行澳門分行)) until October 2002.

Mr. Yang Guang (楊廣先生), aged 81, was appointed as our independent non-executive Director on 25 October 2018. Mr. Yang is also a member of the Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Yang completed a 5-year undergraduate professional programme in Shanghai Jiao Tong University (上海交通大學) in July 1963. Mr. Yang was appointed as an expert of the expert committee of China International Engineering Consultation Company (中國國際工程諮詢公司) in September 2006. Mr. Yang is a professor-level senior engineer (教授級高級工程師) in the PRC.

Mr. Yang has over 20 years of experience in steel manufacturing and processing industry. From May 1979 to May 1991, Mr. Yang worked in Shanghai Baosteel Hot Rolled Factory (上海寶鋼熱軋廠) and his last position was factory manager. Then, Mr. Yang joined Baosteel Group Corporation (寶鋼集團) in May 1991. From May 1991 to February 1993, Mr. Yang worked as director of production department (生產部部長) for overall production management and from February 1993 to May 2001, he worked as deputy general commander of project headquarters (工程指揮部) for planning, design and importation of overseas technology and equipment.

SENIOR MANAGEMENT

Mr. Wu Xiaojun (吳曉俊先生), aged 48, has been the vice president of sales and the supervisor of sales department of Jiangsu Province at Jiangnan Precision since August 2016. Mr. Wu is mainly responsible for sales strategies and management of our Group.

Mr. Wu graduated from Wujin County Hutang Vocational School (武進縣湖塘職業中學), the PRC with a high school diploma in Machinery in July 1993. Mr. Wu joined our Group in July 2006 and served as Jiangnan Precision's sales representative of Guangdong region from July 2006 to March 2011. He was a supervisor of sales department in Jiangsu region of Jiangnan Precision from March 2011 to July 2016.

Mr. Wu has over 20 years of experience in the manufacturing industry, and prior to joining our Group, he had extensive working experience in production management, material procurement and product sales.

Mr. Wu Weijian (吳偉健先生), aged 44, has been the vice president of production at Jiangnan Precision since January 2020. Mr. Wu is mainly responsible for production management of the Group.

Mr. Wu graduated from Changzhou Institute of Industrial Technology of China (中國常州工業技術學院) in July 2000 with a college diploma in Information Technology and Computer Application (信息管理與計算機應用). Mr. Wu joined the Group in February 2004. He served as supervisor of galvanizing workshop (鍍鋅車間主任) from December 2013, supervisor of painted slitting and cutting workshop (彩塗剪切車間主任) from June 2015, and was promoted to director of production department (生產部部長) in 2016.

REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of KangLi International Holdings Limited (the "Company") is pleased to present this report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2021.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in production and sales of (i) unpainted and painted galvanized steel products to midstream steel product processors; and (ii) cold rolled steel products to home appliance manufacturers. The activities of the principal subsidiaries are set out in note 12 to the consolidated financial statements. There were no significant changes in the nature of the Group's activities during the year.

A review of the business of the Group during the year ended 31 December 2021, including an analysis of the Group's performance during the year using financial key performance indicators and an indication of likely future developments in the Group's business are set out under the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. This discussion forms part of this Directors' Report.

PRINCIPAL RISKS AND UNCERTAINTIES

The business operations and results of the Group may be affected by various factors, some of which are external causes and some are inherent to the business. The Board is aware that the Group is exposed to various risks and the principal risks and uncertainties are summarised below:

- ### Risk of uncertain demand for our products

  Our products are primarily sold to home appliance manufacturers for production of their end products and midstream steel product processors, which majority of them do not possess of the ability to perform hot-dip galvanization, for further processing into unpainted galvanized steel products in sheet form and painted galvanized steel products. Demand for the end products such as refrigerators, washing machines and ovens manufactured and sold by our customers to the end users drive demand for our cold rolled steel products while frequent end product upgrades and innovation in the home appliance industry propel end users' demand for new products.

  However, the sales of the end products manufactured and sold by our customers, which means the demand of our products, depends mainly on global economic environment, especially the trade war between the US and the PRC, China's real estate market and government policies in relation to the promotion of the home appliance industry as well as the pace of introduction of new products in the home appliance industry.

  To cope with the risk, in addition to maintaining long term business relationships with most of its major customers, the Group commits to offering high quality products with strong production know-how to increase its competitiveness if the market slowdown.

- **Price fluctuation risk of raw materials**

  Hot rolled steel coils are the major direct raw materials for the production of the Group. The purchase price of hot rolled steel coils is affected by policies and economic situation.

  To cope with the risk, the Group adopts a "cost-plus" pricing model whereby price quotations provided to our customers are reflective of our cost of production together with a mark-up. The extent of mark-up is determined with reference to, amongst others, the market demand, anticipated market trends, historical sales data, fluctuations of the raw materials price, current number of purchase orders, production capacity, the amount of the customer's purchase order, our relationship with the customer and the prices of our competitors' products. Further, we usually place back-to-back orders to suppliers upon receipt of orders from our customers.

- **Risk of shortage of supply of raw materials**

  Hot rolled steel coils are the most important raw materials for our production. Reliable and stable supply of steel raw materials is crucial to our business operations. If there is any interruption or shortage of supply of any of our hot rolled steel coils, we may not be able to meet the demands of our customers in a timely manner.

  To cope with the risk, the Group maintains long term business relationships with most of its major suppliers. Besides, the procurement team of the Group continues to identify alternative suppliers for high quality raw materials in order to ensure the supply of raw materials for production will not be affected.

- **Risks of stringent environmental laws and regulations**

  The Group is subject to various national and local PRC environmental laws and regulations which impose standards on the emission and treatment of pollutants created during our production process, and are required to obtain environmental protection assessment approval and acceptance such as the Pollutant Discharge License from the relevant PRC Government authorities for the operation of our production facility. As the PRC is experiencing substantial issues with environmental pollution, environmental laws and regulations may become more stringent over time. As a result, we may incur more costs and devote more resources to be in full compliance with these laws and regulations.

  To cope with the risk, the Group will closely monitor the development of the relevant laws and regulations and consult our PRC legal advisers to ensure compliance with the relevant environmental laws and regulations. Besides, trainings on the relevant environmental protection inspection requirements will be provided to the staff in charge with the assistant of our PRC legal advisers.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out under the section headed "Corporate Governance Report" of this annual report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment and giving back to community and achieving sustainable growth. Details of such are set out under the section headed "Environmental, Social and Governance Report" of this annual report. This discussion forms part of this Directors' Report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with the relevant laws and regulations that have a significant impact on the Group in all material respects.

RELATIONSHIP WITH KEY PARTIES

The Group's success depends on, amongst other matters, the support from key parties which comprises of the customers, suppliers and employees.

- ### Customers

  The Group has committed to providing high quality products and satisfactory services to each customer according to their requirements and production plan in order to maintain our brand competitiveness. The Group maintains close contact with the customers and had regular review the requirements of customers and feedbacks. Majority of our top customers have established business relationships with us for approximately 10 to 16 years.

- ### Suppliers and subcontractors

  The Group has established stable and long-term relationship with its major hot rolled steel coils suppliers. We maintain an approved suppliers list for suppliers who have passed our assessment criteria and any supplier who fails to meet our requirements will be removed from the approved suppliers list. Majority of our top suppliers have established business relationship with the Group for approximately 7 to 17 years.

  We engage subcontractors to supplement our production capacity and minimise our transportation cost. We have subcontracted the cutting and slitting process of a portion of our hot-dip galvanized steel products to subcontractors who are located in closer proximity to our customers, so as to allow for a quicker response to our customers' orders and delivering our products to those customers in the subcontractors' proximity and in small batches. Our Group has approximately 3 to 6 years of relationship with our subcontractors.

- ### Employees

  The Group regards its employees as one of its most important and valuable assets. We provide competitive remuneration package, appropriate incentives to employees. We also provide appropriate training to employees with outstanding performance for career advancement. We also place significant emphasis in establishing a safe and healthy work environment for our employees. We have established a set of occupational health and safety procedures, quality plan and procedures.

USE OF NET PROCEEDS FROM LISTING AND CHANGE IN USE OF PROCEEDS

The shares (the "Shares") of the Company were listed on the Stock Exchange on 19 November 2018 (the "Listing Date") 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. RMB20,650,000 of the purchase consideration of the new composite coating intellectual colour coating production line was paid before 31 December 2021.

As at 31 December 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 year ended 31 December 2021	Unutilized balance as at 31 December 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)	(20,370)	29,323	By/before 31 December 2022
To expand the production capacity of the colour coating line	–	–	–	–	29,500	(20,650)	8,850	By/before 31 December 2022
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
Total	107,086	(9,403)	–	(1,000)	–	(58,510)	38,173	

The unutilized balance of the net proceeds was placed with banks as at 31 December 2021.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2021 and the Group's state of affairs as at that date are set out in the consolidated financial statements in this annual report.

The Board has resolved to recommend the payment of a final dividend of HK$0.050 per ordinary share for the year ended 31 December 2021 to the shareholders subject to shareholders' approval at the forthcoming annual general meeting.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the consolidated financial statements.

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2021 are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22(b) to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 22(a) to the consolidated financial statements and details of movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 73 of this annual report.

As of 31 December 2021, the Company has a share premium balance of RMB168,582,000 which shall be available for distribution to the shareholders.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group for the past five financial years is set out on page 124 of this annual report.

DIRECTORS

The Directors who held office during the year ended 31 December 2021 and up to the date of this annual report are:

Executive Directors:
Mr. Mei Zefeng
Ms. Liu Ping *(Chairman)*
Mr. Zhang Zhihong *(Chief Executive Officer)*
Ms. Lu Xiaoyu
Mr. Xu Chao

Independent non-executive Directors:
Mr. Lau Ying Kit (appointed on 20 December 2021)
Mr. Cao Baozhong
Mr. Yang Guang
Mr. Li Yuen Fai Roger (resigned on 24 January 2022)

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting ("Annual General Meeting") of the Company and shall then be eligible for re-election. Thus Mr. Lau Ying Kit shall retire from office as Directors and, being eligible, offered himself for re-election at the forthcoming Annual General Meeting.

In addition, pursuant to Article 84 of the Articles of Association, at each Annual General Meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years and any Director appointed by the Board pursuant to Article 83(3) shall not be taken into account in determining which particular Directors or the number of Directors who are to retire by rotation. Accordingly, Ms. Liu Ping, Mr. Zhang Zhihong and Ms. Lu Xiaoyu shall retire from office as Directors at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out in the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

DIRECTOR'S SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with the Company for a term of three years subject to re-election as and required under the Articles of Association. Either party has the right to give not less than three months' written notice to terminate the agreement.

Each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years subject to re-election as and required under the Articles of Association. Either party has the right to give not less than three months' written notice to terminate the appointment.

None of the Directors has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

CHANGE IN INFORMATION OF THE DIRECTORS

Pursuant to Rule 13.51(B)(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the change in information of the directors is as follows:

Mr. Mei Zefeng, Ms. Liu Ping, Mr. Zhang Zhihong, Ms. Lu Xioayu and Mr. Xu Chao have renewed their service agreements with the Company for another terms of three years with effect from 25 November 2021.

Mr. Cao Baozhong and Mr. Yang Guang have renewed their letter of appointments for another terms of three years with effect from 25 November 2021.

Save as disclosed above, there was no change in the information of the Directors of the Company required to be disclosed pursuant to Rule 13.51(B)(1) of the Listing Rules.

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of its independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2021.

INDEMNITY AND DIRECTORS' LIABILITIES INSURANCE

Pursuant to the Articles of Association and subject to the applicable laws and regulations, every Director shall be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may incur or sustain by the execution of the duties of his/her office or otherwise in relation thereto. The Company has arranged appropriate insurance covering the potential legal actions against its Directors and officers.

MANAGEMENT CONTRACTS

Save for service contracts of the Directors, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into by the Company or existed during the year ended 31 December 2021.

DEED OF NON-COMPETITION

Newrich Limited, Star Century Corporate Limited, Mr. Mei Zefeng and Ms. Liu Ping (collectively the "Controlling Shareholders") have entered into the deed of non-competition dated 25 October 2018 (the "Deed") in favour of the Company.

Pursuant to the Deed, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company that they shall not, and shall procure that none of their respective close associates and/or companies controlled by them (other than members of the Group) shall, during the period that the shares of the Company remain listed on the Stock Exchange or the Controlling Shareholders and their respective associates, individually or jointly, remain to be deemed as controlling shareholder and/or a Director of the Company, directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, for profit or not, among other things, carry on, engage, invest, be interested or involved or engaged in, acquire or hold any rights or interest in any business of manufacturing and sales of cold rolled steel products in the PRC and such other parts of the world where any member of the Group may operate from time to time or other related business which the Group may undertake from time to time after the listing of the Company. The Deed does not apply to their interest in the shares or other securities of any members of the Group and their interest in the shares of a company other than our Group provided that such shares are listed on a recognised stock exchange and the aggregate interest of the relevant Controlling Shareholders and its/his close associates do not amount to more than 5% of the relevant share capital of the company concerned (the "Relevant Company") provided that the shareholding of any one holder in the Relevant Company is more than that of our Controlling Shareholder and its/his close associates in aggregate at any time and the total number of the representatives of the Controlling Shareholder or its/his close associates on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company.

The Company has received an annual declaration in favour of the Company from the Controlling Shareholders that the Controlling Shareholders have fully complied with their obligations under the Deed for the year ended 31 December 2021. The independent non-executive Directors have reviewed, based on the information available, and made the necessary enquiries to the Controlling Shareholders on the Deed and were satisfied that the Deed has been complied with and has been effectively enforced during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, during the year ended 31 December 2021, neither our Controlling Shareholders nor any of our Directors and their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 2021 was the Company, its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2021, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in Shares and Underlying Shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Mei Zefeng (Note 3)	Interest of controlled corporation	343,220,000 (L)	56.61%
	Interest of spouse	85,500,000 (L)	14.10%
Ms. Liu Ping (Note 4)	Interest of controlled corporation	85,500,000 (L)	14.10%
	Interest of spouse	343,220,000 (L)	56.61%

Notes:

(1) The Letter "L" denotes our Directors' long position in the Shares.

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2021.

(3) Mr. Mei Zefeng, being the sole director of Newrich Limited, is the sole shareholder of Newrich Limited which holds 343,220,000 Shares. Therefore, Mr. Mei Zefeng is deemed to be interested in Newrich Limited's interest in the Shares pursuant to the SFO. In addition, Mr. Mei Zefeng is the spouse of Ms. Liu Ping. Therefore, Mr. Mei Zefeng is deemed to be interested in Ms. Liu Ping's interest in the Shares pursuant to the SFO.

(4) Ms. Liu Ping, being the sole director of Star Century Corporate Limited, is the sole shareholder of Star Century Corporate Limited which holds 85,500,000 Shares. Therefore, Ms. Liu Ping is deemed to be interested in Star Century Corporate Limited's interest in the Shares pursuant to the SFO. In addition, Ms. Liu Ping is the spouse of Mr. Mei Zefeng. Therefore, Ms. Liu Ping is deemed to be interested in Mr. Mei Zefeng's interest in the Shares pursuant to the SFO.

Save as disclosed above, as at 31 December 2021, so far as was known to the Directors and chief executives of the Company, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES

As at 31 December 2021, to the best knowledge of the Directors, the following interests and short position of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Mei Zefeng	Interest of controlled corporation	343,220,000 (L)	56.61%
	Interest of spouse	85,500,000 (L)	14.10%
Ms. Liu Ping	Interest of controlled corporation	85,500,000 (L)	14.10%
	Interest of spouse	343,220,000 (L)	56.61%
Newrich Limited	Beneficial owner	343,220,000 (L)	56.61%
Star Century Corporate Limited	Beneficial owner	85,500,000 (L)	14.10%
江蘇常州經濟開發管理委員會 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
常州東方新城建設有限公司 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
常州東方水務投資發展有限公司 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
香港東方控股實業有限公司 (Note 3)	Beneficial owner	59,000,000 (L)	9.73%

Notes:

(1) The Letter "L" denotes our Directors' long position in the Shares.

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2021.

(3) 香港東方控股實業有限公司 holds 59,000,000 Shares. 江蘇常州經濟開發管理委員會 holds 100% of the issued shares of 常州東方新城建設有限公司, which holds 100% of the issued shares of 常州東方水務投資發展有限公司, which holds 100% of the issued shares of 香港東方控股實業有限公司. Therefore, each of 江蘇常州經濟開發管理委員會, 常州東方新城建設有限公司 and 常州東方水務投資發展有限公司 are deemed to be interested in same number of shares in which 香港東方控股實業有限公司 is interested under the SFO.

Save as disclosed above, as at 31 December 2021, the Directors have not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2021 and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

SHARE OPTIONS

The Company has conditionally adopted the share option scheme ("Share Option Scheme"), which was approved by written resolution passed by its shareholders on 25 October 2018.

The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Share Option Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the shares in order to capitalise on the benefits of the options granted.

The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules. Details of the principal terms of the Share Option Scheme are set out below:

- The Directors may, at its absolute discretion, make an offer to grant options to any employee of the Group, any non-executive Directors (including independent non-executive Directors), any suppliers, any customers, any adviser or any participants who shall be determined by the Directors from time to time on the basis that the Directors' opinion as to his contribution to the development and growth of the Group.

- The maximum number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 10% of the ordinary shares in issue upon the Listing (the Company may refresh this 10% limit under certain conditions) or 30% of the ordinary shares in issue from time to time where there are options to be granted and yet to be exercised.

- The total number of ordinary shares issued and to be issued upon exercise of the options granted to each qualified person under the Share Option Scheme or any other share option schemes adopted by the Company in any twelvemonth period must not exceed 1% of the ordinary shares in issue. Any further grant of options which would result in the number of ordinary shares exceeding 1% requires a shareholders' approval with the relevant participant and its associates abstaining from voting.

- The offer of a grant of share options may be accepted within 21 days from the date the offer together with the payment of nominal consideration of HK$1 by the grantee. The period (the "Option Period") within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantees. All outstanding options shall lapse, among other circumstances, when the grantee ceases to be a participant of the Share Option Scheme by reason of the termination of his/her employment.

- The subscription price will be determined by the Board at the time the grant of the options is made and shall not be less than the highest of:
  - (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date;
  - (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and
  - (iii) the nominal value of a share.
- The Share Option Scheme is valid and effective for a period of ten years commencing on 25 October 2018 (being the date of adoption of the Share Option Scheme).

As at 31 December 2021, there was no option outstanding, granted, cancelled, exercised or lapsed.

CONNECTED TRANSACTIONS

During the year, the Group had the following transactions and arrangements with connected persons (as defined in the Listing Rules) of the Company which are required to be reported in this annual report in compliance with the disclosure requirements under Chapter 14A of the Listing Rules:

1. Continuing connected transaction with Changzhou Nankai Trading Co., Ltd.* (常州南凱物貿有限公司) ("Nankai Trading")

On 13 November 2020, Jiangsu Jiangnan Precision Metal Material Co., Limited (江蘇江南精密金屬材料有限公司) ("Jiangnan Precision") entered into a renewed framework sales agreement with Nankai Trading for three years from 1 January 2021 to 31 December 2023. Nankai Trading is 60% owned by Mr. Mei Yiqiu ("Mr. Mei YQ"), a cousin of Mr. Mei Zefeng, who is one of the Controlling Shareholders of the Company ("Renewed Framework Sales Agreement (I)").

The Renewed Framework Sales Agreement (I) is a framework sales agreement which contains the principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transactions contemplated thereunder. Pursuant to the Renewed Framework Sales Agreement (I), Nankai Trading may, at the end of each calendar month, during the term of the Renewed Framework Sales Agreement (I), enter into separate sales agreement(s) in respect of the purchases covered by the Renewed Framework Sales Agreement (I), which will specify, among others, the payment terms, price and quantity of scrap metal materials to be purchased in the following calendar month, provided that such separate sales agreement(s) shall always be subject to the terms of the Renewed Framework Sales Agreement (I).

Pursuant to the Renewed Framework Sales Agreement (I), Nankai Trading agrees to purchase, on a non-exclusive basis, from Jiangnan Precision scrap metal materials. The purchase price of scrap metal materials is to be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and on the following principles: (i) the market price of scrap metal materials, steel wires and other similar products charged by nearby independent manufacturers; and (ii) factors including quantity of purchase and mode of delivery. In determining the market price, the Company will compare the prices of scrap metal materials, steel wires and other similar products from at least two nearby independent manufacturers of those products to ensure that price is no more favourable than those offered by the Group to independent third parties.

The annual caps of the transaction amounts for the financial year ended 31 December 2021 and the two financial years ending 31 December 2022 and 2023 are RMB12.2 million, RMB12.2 million and RMB12.2 million respectively. The total transaction amounts under the Renewed Framework Sales Agreement (I) for the year ended 31 December 2021 was approximately RMB11.8 million.

2. Continuing connected transaction with Changzhou Nankai Metal Co. Ltd.* (常州南凱金屬製品有限公司) ("Nankai Metal")

On 13 November 2020, Jiangnan Precision entered into a renewed framework sales agreement with Nankai Metal which is 45% owned by Mr. Mei YQ ("Renewed Framework Sales Agreement (II)") for three years from 1 January 2021 to 31 December 2023.

The Renewed Framework Sales Agreement (II) is a framework sales agreement which contains the principles, mechanisms and terms and conditions upon which the parties thereto are to carry out the transactions contemplated thereunder. Pursuant to the Renewed Framework Sales Agreement (II), Nankai Metal may, at the end of each calendar month, during the term of the Renewed Framework Sales Agreement (II), enter into separate sales agreement(s) in respect of the purchases covered by the Renewed Framework Sales Agreement (II), which will specify, among others, the payment terms, price and quantity of scrap metal materials to be purchased in the following calendar month, provided that such separate sales agreement(s) shall always be subject to the terms of the Renewed Framework Sales Agreement (II).

Pursuant to the Renewed Framework Sales Agreement (II), Nankai Metal agrees to purchase, on a non-exclusive basis, from Jiangnan Precision scrap metal materials. The purchase price of scrap metal materials is to be determined in the ordinary course of business on normal commercial terms, negotiated on an arm's length basis and on the following principles: (i) the market price of scrap metal materials, steel wires and other similar products charged by nearby independent manufacturers; and (ii) factors including quantity of purchase and mode of delivery. In determining the market price, the Company will compare the prices of scrap metal materials, steel wires and other similar products from at least two nearby independent manufacturers of those products to ensure that price is no more favourable than those offered by the Group to independent third parties.

The annual caps of the transaction amounts for the financial year ended 31 December 2021 and the two financial years ending 31 December 2022 and 2023 are RMB4.8 million, RMB4.8 million and RMB4.8 million respectively. The total transaction amounts under the Renewed Framework Sales Agreement (II) for the year ended 31 December 2021 was approximately RMB nil.

As the Renewed Framework Sales Agreement (I) and Renewed Framework Sales Agreement (II) (collectively known as the "Renewed Framework Sales Agreements") involves Mr. Mei YQ who is a connected party to the Company and the subject matter of the Renewed Framework Sales Agreements involves the sale of scrap metal materials, the continuing connected transactions contemplated under the Renewed Framework Sales Agreements were aggregated for consideration.

The independent non-executive Directors have reviewed the above continuing connected transactions (collectively, the "Continuing Connected Transactions") and confirmed that they were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms not less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreement(s) governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have confirmed to the Board that the above-mentioned Continuing Connected Transactions (i) have been approved by the Board; (ii) are in accordance with the pricing policies of the Group where such transactions involve the provision of goods or services by the Group; (iii) have been entered into in accordance with the relevant agreements governing such transactions; and (iv) have not exceed the respective annual cap as set by the Company.

The independent auditors of the Company (the "Independent Auditors") were engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Independent Auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions made by the Group disclosed above in accordance with rule 14A.56 of the Listing Rules. A copy of the Independent Auditors' letter has been provided by the Company to the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer and five largest customers for the year ended 31 December 2021 accounted for approximately 12.5% and 45.3% respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers for the year ended 31 December 2021 accounted for approximately 64.5% and 81.2% respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2021.

EMOLUMENT POLICY AND DIRECTOR'S REMUNERATION

The remuneration committee was set up for reviewing the Group's emoluments policy and advise the remuneration of the Directors and senior management of the Group with reference to their duties, responsibilities, experience and performance and also the results of the Group. Details of the remuneration of the Directors and the five highest paid individuals during the year ended 31 December 2021 are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

Details of the retirement benefit schemes operated by the Group are set out in note 6(b) to the financial statements.

LITIGATION AND ARBITRATION

As at the date of this report, there was no outstanding or pending litigation and arbitration for the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the law of Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders.

NON-ADJUSTING EVENT AFTER THE YEAR END DATE

Details of non-adjusting event after 31 December 2021 are set out in note 27 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float throughout the year and up to the date of this annual report.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities. If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to the shares, they are advised to consult an expert.

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on Friday, 10 June 2022. The notice of AGM will be sent to shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed for the following periods:

(a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Friday, 10 June 2022, the register of members of the Company will be closed from Tuesday, 7 June 2022 to Friday, 10 June 2022, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 6 June 2022.

(b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Thursday, 16 June 2022 to Monday, 20 June 2022, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 15 June 2022.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2021. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the forthcoming AGM of the Company.

On behalf of the Board
KangLi International Holdings Limited

Liu Ping
Chairman

Hong Kong, 25 March 2022

* *for identification purpose only*

CORPORATE GOVERNANCE REPORT

The board of directors (the "Directors") of the Company (the "Board") is pleased to present this Corporate Governance Report in the Company's annual report for the year ended 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

The Board believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholder value. The Company is committed to building and maintaining high standards of corporate governance to enhance its transparency and accountability. The Company's corporate governance practices are based on the principles and the code provisions of the Corporate Governance Code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Throughout the year ended 31 December 2021, the Company has applied the principles in the CG Code which are applicable to the Company and, in the opinion of the Directors, the Company has complied with all applicable code provisions set out in the CG Code.

The Board will continually review and monitor its corporate governance practices to ensure compliance with the CG Code.

MODEL CODE FOR DIRECTORS' 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 during the Reporting Period.

BOARD OF DIRECTORS

Board Composition

The Board currently comprises the following executive Directors and independent non-executive Directors.

Executive Directors

Mr. Mei Zefeng	
Ms. Liu Ping	*(Chairman of the Board and Chairman of Nomination Committee)*
Mr. Zhang Zhihong	*(Chief Executive Officer and Member of Remuneration Committee)*
Ms. Lu Xiaoyu	
Mr. Xu Chao	

Independent non-executive Directors

Mr. Lau Ying Kit	*(Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)*
Mr. Cao Baozhong	*(Chairman of Remuneration Committee and Member of Nomination Committee and Audit Committee)*
Mr. Yang Guang	*(Member of Remuneration Committee, Nomination Committee and Audit Committee)*

Mr. Mei Zefeng is the spouse of Ms. Liu Ping and Mr. Xu Chao is the cousin of Ms. Liu Ping. Save as disclosed above, there is no relationship between other Directors.

The Company believes that the current Board composition is well-balanced and of a diverse mix of skills and experience appropriate for the business of the Company.

The biographical information of the Directors and the relationship between the Directors and the senior management are detailed under the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

Save as disclosed in the section headed "Biographical Details of the Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

Board Meetings and Directors' Attendance Records at Board and General Meeting

Under the code provision A.1.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals, either in person or through electronic communication, to review the Group's overall strategies, financial and operational performances, approve the annual and interim results of the Group, assess the risk management and internal control systems, and discuss other significant matters. In addition, the Board holds general meeting to maintain an on-going dialogue with the Shareholders.

The Board held nine Board meetings in 2021 of which four were regular meetings at approximately quarterly intervals to discuss and review the Group's business development, operations and financial performance. The attendance of each director at Board meetings and general meeting is set out in the table below:

	Attendance/Number of Meeting(s)	
Name of Directors	**Board Meetings**	**Annual General Meeting**
Executive Directors		
Mr. Mei Zefeng	9/9	1/1
Ms. Liu Ping	9/9	1/1
Mr. Zhang Zhihong	9/9	1/1
Ms. Lu Xiaoyu	9/9	1/1
Mr. Xu Chao	9/9	1/1
Independent Non-executive Directors		
Mr. Cao Baozhong	9/9	1/1
Mr. Yang Guang	9/9	1/1
Mr. Lau Ying Kit (appointed on 20 December 2021)	1/9	N/A
Mr. Li Yuen Fai Roger (resigned on 24 January 2022)	9/9	1/1

All Directors have the opportunity to include matters in the agenda for a Board meeting. Notices of regular Board meetings will be sent to Directors at least 14 days before the meeting date. For other Board and committee meetings, reasonable time is generally given.

The agenda together with relevant information will be sent to all Directors at least 3 days before each Board meeting to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management when necessary.

Directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the expenses of the Company. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Directors to discharge their duties to the Company.

Minutes of each Board meeting will be drafted by the Company Secretary to record the matters discussed and decision resolved at the Board meetings and circulated to the Board for comment within a reasonable time after each meeting. The final Board minutes are kept by the Company Secretary and are available for inspection by Directors.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

Chairman and Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles and responsibilities of chairman and chief executive officer should be separated and should not be performed by the same individual.

The chairman of the Board and the chief executive officer are currently two separate positions held by Ms. Liu Ping and Mr. Zhang Zhihong respectively. The chairman of the Board is responsible for providing strategic advice and guidance on the business development of the Group, while the chief executive officer is responsible for the day-to-day operations of the Group.

Independent Non-executive Directors

The Board at all the times had at least three independent non-executive Directors with at least one independent non-executive Director has appropriate professional qualifications on accounting or related financial management expertise during the year ended 2021. The total number of independent non-executive Directors representing at least one-third of the Board maintain a strong independent element on the Board in order to exercise independent judgment.

The Company has received, from each independent non-executive Directors of the Company, written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent.

During the year ended 31 December 2021, the Chairman had a meeting with the independent non-executive Directors without the presence of other Directors.

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association.

The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors. In selecting and approving candidate for directorship, the Board will consider various criteria such as education, qualification, experience, integrity and the potential contribution to the Group.

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years, subject to renewal after the expiry of the then current term. Each of the independent non-executive Directors has entered into an appointment letter with the Company for an initial term of three years, subject to renewal after the expiry of the then current term.

In accordance with the Company's Articles of Association, all Directors of the Company are subject to retirement by rotation at an annual general meeting at least once every three years. Any new Director appointed by the Board to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting of the Company after appointment and new Directors appointed as an addition to the Board shall submit himself/herself for re-election by shareholders at the next following annual general meeting of the Company after appointment.

Responsibilities of the Board and Management

The Board is responsible for formulating the business plans and strategies, monitoring the business performance, risk management and internal control, approving investment proposals, reviewing the finance performance and appointment of directors and other significant operational matters of the Group. The daily operations of the Group and execution of the business plans are delegated to the management of the Group. Prior to entering into any significant transactions, Board approval should be obtained. In addition, the Board has established Board Committees and has delegated to these Board Committees various responsibilities set out in their terms of reference respectively.

The Company has established written guidelines on no less exacting terms than the Model Code for employees who are likely to be in possession of unpublished inside information of the Company. No incident of non-compliance of the guidelines was noted.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times. In addition, every director should ensure sufficient time and attention to the affairs of the Company and disclose the number and nature of offices held in public companies or organization and other significant commitments as well as the identity of the public companies or organizations and the time involved. The Directors have agreed to disclose their commitments and any subsequent change to the Company in a timely manner.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors arising out of corporate activities.

Continuous Professional Development

Newly appointed Director will be arranged a comprehensive and formal induction which includes provision of key guidelines, documents and publications relevant to their roles, responsibilities and ongoing obligations under the Listing Rules and relevant statutory requirements; a briefing on the Company's structure, businesses, risk management and other governance practices and meeting with other fellow Directors so as to help the newly appointed Directors familiarize with the management, business and governance policies and practices of the Company, and ensure that they have a proper understanding of the operations and businesses of the Company.

The Company encourages its directors to participate in continuous professional development courses and seminars organized by professional institutions or professional firms at the Company's expense and read materials on relevant topics, likes corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances, so that they can continuously update and further improve their relevant knowledge and skills.

During the year ended 31 December 2021, the Company provided an in-house training conducted by an external legal advisor covering the duties of directors' responsibility, updates on Listing Rules and cases related to breach of Listing Rules by listed issuers and directors. In addition to the in-house training, the Directors have been provided with relevant training reading materials in relation to anti-corruption and corporate governance.

According to the information provided by the Directors, a summary of training received by the Directors during the year ended 31 December 2021 is as follows:

Name of Directors	Attending in-house training, Attending seminars, Reading materials
Executive Directors	
Mr. Mei Zefeng	✔
Ms. Liu Ping	✔
Mr. Zhang Zhihong	✔
Ms. Lu Xiaoyu	✔
Mr. Xu Chao	✔
Independent Non-executive Directors	
Mr. Cao Baozhong	✔
Mr. Yang Guang	✔
Mr. Lau Ying Kit (appointed on 20 December 2021)	✔
Mr. Li Yuen Fai Roger (resigned on 24 January 2022)	✔

BOARD COMMITTEES

The Board is supported by three committees with defined roles and responsibilities for each committee. Such committees are the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and audit committee (the "Audit Committee"). All committees were set up with a written terms of reference, which are in line with the relevant CG Code and available to shareholders on the Company's website, to deal clearly with its authority and duties. The committees will report their findings and decisions and make necessary recommendations to the Board.

Minutes of the committee meetings will be drafted by the Company Secretary and circulated for the comment to the members of the committee within a reasonable time. The final version of the committee minutes are kept by the company secretary (the "Company Secretary") and such minutes are open for inspection by any Director. All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Details of each committee and their duties are as follows:

Nomination Committee

The Nomination Committee currently comprises four members, including one executive Director, namely Ms. Liu Ping (chairman) and three independent non-executive Directors, namely Mr. Lau Ying Kit, Mr. Cao Baozhong and Mr. Yang Guang.

The principal duties of the Nomination Committee include reviewing the size, structure and composition of the Board, making recommendations to the Board on the appointment and succession planning of Directors with reference to the Company's corporate strategy and assessing the independence of the independent non-executive Directors. The terms of reference of the Nomination Committee are in line with the CG Code and are accessible through the Company's website.

The Nomination Committee met twice during the year ended 31 December 2021 to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, to consider the qualifications of the retiring directors standing for election at the Annual General Meeting and to consider the appointment of new director to the Board. The Nomination Committee also assessed an appropriate balance of diversity perspectives of the Board is maintained.

The attendance record of each Director at the said Nomination Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Ms. Liu Ping *(Chairman)*	2/2
Mr. Cao Baozhong	2/2
Mr. Yang Guang	2/2
Mr. Lau Ying Kit (appointed on 20 December 2021)	N/A
Mr. Li Yuen Fai Roger (retired on 24 January 2022)	2/2

To facilitate the duties of the Nomination Committee, the Board adopted a director nomination policy and a board diversity policy. Details of the two policies are as follows:

Nomination Policy

The Board adopted a director nomination policy (the "Nomination Policy") which describes the procedures and selection criteria by which the Company will select candidate(s) for possible inclusion in the Board. The Board considers the Nomination Policy could ensure the Board maintains a balance of skills, experience and diversity of perspectives appropriate to the requirement of the Company's business.

In assessing the suitability of a proposed candidate before recommending to the Board for it to consider and make recommendations to shareholders for election as Directors at general meetings or appoint as Directors to fill casual vacancies, the Nomination Committee will consider:

(a) the highest personal and professional ethics and integrity;

(b) proven achievement and competence in the nominee's field and the ability to exercise sound business judgment;

(c) skills that are complementary to those of the existing Board;

(d) the ability to assist and support management and make significant contributions to the Company's success;

(e) an understanding of the fiduciary responsibilities that is required of a member of the Board and the commitment of time and energy necessary to diligently carry out those responsibilities; and

(f) independence: the independent non-executive director candidates should meet the "independence" criteria as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the composition of the Board is in conformity with the provisions of the Listing Rules.

Other than the foregoing, the Nomination Committee may also consider such other factors as it may deem are in the best interests of the Company and its Shareholders.

During the year ended 31 December 2021, Mr. Lau Ying Kit was appointed as an independent non-executive Director of the Company as Mr. Li Yuen Fai Roger had notified the Board for his plan to resign in January 2022. The Nomination Committee had followed the Nomination Policy to make the necessary assessment before the nomination of Mr. Lau Ying Kit.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Board Diversity Policy

In order to achieving a sustainable and balanced development, the Company considers the enhancement of diversity at the Board level as an essential element in facilitating the achievement of its strategic objectives and sustainable development. In deciding the Board composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity to the board. The selection of candidates will be based on a range of diverse perspectives, including but not limited to, gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be based upon the merits and contribution the selected candidates will bring to the Board.

The Nomination Committee reviews the structure of the Board annually. The Board currently comprises 8 Directors of which 6 are male and 2 are female. The age of the Directors range from 34 to 81. The Board comprised renowned experts in the area of steel manufacturing and processing industry, finance, accounting, capital market, corporate governance and management. The Nomination Committee considers that the Board is sufficiently diversified.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Remuneration Committee

The Remuneration Committee currently comprises four members, including three independent non-executive Directors, namely Mr. Cao Baozhong (chairman), Mr. Lau Ying Kit and Mr. Yang Guang, and one executive Director, namely Mr. Zhang Zhihong.

The Remuneration Committee is responsible for reviewing the contract terms of Directors and senior management of the Group; making recommendations to the Board regarding the Group's policies and structure for remuneration of Directors and senior management of the Group; making recommendations to the Board on the remuneration packages of individual Directors and senior management and reviewing and approving incentive schemes and performance-based remuneration.

The terms of reference of the Remuneration Committee are in line with the CG Code and are accessible through the Company's website.

Remuneration Committee met twice during the year ended 31 December 2021 to review and make recommendation to the Board on the remuneration policy and structure of the Company, the remuneration packages of the existing Directors and other related matters and make recommendation to the Board on the remuneration of the newly appointed director.

The attendance record of each Director at the said Remuneration Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Cao Baozhong *(Chairman)*	2/2
Mr. Yang Guang	2/2
Mr. Zhang Zhihong	2/2
Mr. Lau Ying Kit (appointed on 20 December 2021)	N/A
Mr. Li Yuen Fai Roger (resigned on 24 January 2022)	2/2

Details of the emoluments paid to the Directors and highest paid individuals for the year ended 2021 are set out in notes 8 and 9 to the financial statements in this annual report.

Audit Committee

The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Lau Ying Kit (chairman), Mr. Cao Baozhong and Mr. Yang Guang.

The primary duties of the Audit Committee are to manage the relationship between the Company and its external auditor and monitor the audit scope and the process, to review and supervise the financial reporting process, internal control system and risk management and to provide advice and comments to the Board. The terms of reference of the Audit Committee are in line with the CG Code and are accessible through the Company's website.

During the year ended 31 December 2021, the Audit Committee held four meetings, with the help of auditor and internal control expert, to discuss and review the 2020 annual financial results and the effectiveness of the Company's risk management and internal control systems, to consider the re-appointment of external auditor, to review the 2021 interim financial results and to review and discuss the scope and fee of 2021 annual audit and internal control review.

The Audit Committee met the external auditors twice without the presence of the executive Directors during the year ended 31 December 2021.

The attendance record of each Director at the said Audit Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Lau Ying Kit *(Chairman)* (appointed on 20 December 2021)	1/4
Mr. Cao Baozhong	4/4
Mr. Yang Guang	4/4
Mr. Li Yuen Fai Roger (resigned on 24 January 2022)	4/4

Corporate Governance Functions

No corporate governance committee has been established by the Company and the Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code. The Board, with the help of the Audit Committee, had reviewed the Group's corporate governance policies and practices, training and continuous professional development of the Directors and senior management, the Group's policies and practices on compliance with legal and regulatory requirements, compliance of the Model Code and the compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining sound and effective risk management and internal control systems of the Group to safeguard shareholders' investment and the Group's assets. No risk management committee has been established and the Board, with the help of the Audit Committee and external consulting firm, reviews the overall effectiveness and oversees the management of the Group in the design, implementation and monitoring of the risk management and internal control systems of the Group. The risk management and internal control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

The Board continuously monitors the Group's risk management framework, reviews the Group significant risks and conducts an annual review of the effectiveness of the risk management system. The Board determines the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Group's risk management and internal control systems include, among others, the relevant financial, operational and compliance control and risk management procedures or policies, a well-established organizational structure with a clearly defined line of responsibilities and authorities. Each department is accountable for its daily operations and is required to implement the policies adopted from the Board from time to time. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department. The management had reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems during the year ended 31 December 2021.

The Company does not establish its internal audit department in view of its existing scale and complexity of business operation. During the year ended 31 December 2021, the Directors, through the Audit Committee with the help of external consulting firm, have reviewed the effectiveness of the internal control system of the Group. The Company has engaged an external consulting firm to conduct a review of the effectiveness of the system of internal control of the major operating subsidiaries of the Group. Areas for improvement have been identified and appropriate measures have been taken to provide assurance that key operational risks are identified and managed.

The Company has an inside information policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

The Board with the help of Audit Committee and the external consulting firm, has reviewed the effectiveness of the risk management and internal control systems of the Group for the year ended 31 December 2021, which covered material controls, including financial, operational and compliance controls and risk management of the Group and considered that such systems are effective and adequate, despite having identified areas of improvement.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2021.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibility is set out under the section headed "Independent Auditor's Report" of this annual report.

AUDITOR'S REMUNERATION

The Company has appointed KPMG as the Auditor of the Group. The remuneration paid or payable to the Auditor in respect of audit services and non-audit services for the year ended 31 December 2021 was approximately as follows:

Type of services	Fees paid/payable RMB'000
Audit services	1,660
Non-audit services related to tax advisory services	20
	1,680

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor for the year ended 31 December 2021.

COMPANY SECRETARY

Mr. Chung Yau Tong ("Mr. Chung") was appointed as the company secretary of the Company and he is an employee of the Company. Mr. Chung had compiled with Rule 3.29 of the Listing Rules for the year ended 31 December 2021 and had taken not less than 15 hours of relevant professional training for the year under review.

SHAREHOLDERS' RIGHTS

Procedures for Convening an Extraordinary General Meeting by Shareholders and Putting Forward Proposals at Shareholders' Meetings

Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary") to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting.

Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at an extraordinary general meeting must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the head office or its principal place of business in Hong Kong.

The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the extraordinary general meeting and be signed by the Eligible Shareholder(s) concerned.

If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene an extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Articles and Association of the Company, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Making Enquiries to the Board

Shareholders of the Company may submit their enquiries and concerns to the Board in writing by addressing them to the Board by post or delivery to the head office or its principal place of business in Hong Kong. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their requisition or enquiries as mentioned above to the following:

Headquarters in the PRC

Wuyi County, Hengshanqiao Town Wujin District, Changzhou City, Jiangsu Province, the PRC

Fax: (86) 519-88608896

Principal place of business in Hong Kong

Suite 812, 8/F, Ocean Centre, Harbour City, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

Fax: (852) 3753-1353

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Major channels to communicate information to Shareholders and the investors include: the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened, publication of all disclosed information submitted to the Stock Exchange on the websites of the Company and the Stock Exchange. The Company will continuously ensure the effectiveness and timeliness of information disclosure to Shareholders and the investors. The Board welcomes the views of shareholders on matters affecting the Group and encourages them to attend shareholders' meetings to communicate any concerns they might have with the Board or the management directly.

Shareholders of the Company and investors can mail any enquiries, comments, suggestions and recommendations to the head office or the principal place of business in Hong Kong as mentioned above, the Board or their delegates will reply and response to you promptly.

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

DIVIDEND POLICY

The Company does not have any pre-determined dividend distribution ratio. The policy adopted by the Company to determine the payment and the amount of any dividends, if paid, are depended on, among other things, the Group's overall results of operation, financial position, capital requirements, cash flows and future prospects, the amount of distributable reserves of the Company and other factors that the Directors considered relevant from time to time. The declaration of dividends would be subject to the discretion of the Board and any final dividends actually distributed to shareholders would be subject to the approval of the shareholders.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2021, the Company has not made any changes to the Memorandum and Articles of Association of the Company. An up to date version of the Memorandum and Articles of Association of the Company is available on the Company's website and the Stock Exchange's website.

APPROACH

KangLi International Holdings Limited ("KangLi" or the "Company") and its subsidiaries (collectively, the "Group" or "we") are committed to maintaining the strong position as a galvanized steel products manufacturer in Jiangsu Province, People's Republic of China ("PRC"), while integrating sustainability into our business strategy. Various factors, including business-related challenges, work ethics, global trends, laws and regulations, etc., are taken into account in order to constantly promote business growth and achieve sustainability goals.

The Group recognizes its responsibility to be accountable to all its stakeholders, including customers, potential investors, shareholders, media, employee, government, suppliers, non-governmental organizations ("NGOs") and the local community. Understanding the needs and expectations of our stakeholders is the key to the Group's success. As each stakeholder requires a different engagement approach, the Group has established a tailor-made communication method in order to better meet each stakeholder's expectations.

We place huge emphasis on monitoring the risks and exploring potential opportunities. For the sake of striking a balance between business needs, social demands and environmental impacts, we are committed to continuously monitoring the risks and opportunities that exist in our daily operations, and embracing transparent corporate culture to ensure that our sustainability strategies are well communicated to our employees, customers, suppliers, the communities and other stakeholders.

ABOUT THIS REPORT

The Group is pleased to present its Environmental, Social and Governance ("ESG") Report. The content contained herein focuses on providing an overview of the sustainability performance, management approach and vision of its major operations in the PRC for the year ended 31 December 2021 (the "Reporting Year"). The Reporting Year coincides with our financial year.

Scope and Preparation Basis of the Report

This report was prepared in accordance with the disclosure obligations under the "ESG Reporting Guide" Appendix 27 of the Main Board Listing Rules (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and complies with all provisions of "Mandatory Disclosure" and "Comply or Explain", as well as the principles of materiality, quantitative, balance and consistency. In response to the latest revisions effective for financial year commencing on or after 1 July 2020, our reporting framework was enhanced to address all newly introduced reporting requirements. The Group has adopted the international standards and emission factors specified in the guidance materials on ESG issued by the Stock Exchange for computing the relevant Key Performance Indicators ("KPIs"), and there is no change from previous year in the way the Report has been prepared, unless otherwise stated. The application of materiality is detailed in the subsection headed "Materiality Assessment".

Source of Information and Reliability Statement

The data and information used in this Report are referenced from our archived documents, records, statistics and research. Financial data is extracted from or calculated based on the Group's audited annual financial statements for the year ended 31 December 2021.

The Group has confirmed that this Report has no false representations, misleading statements or material omissions, and is responsible for the truthfulness, accuracy and completeness of its contents.

Feedback

A feedback form is published online to enable readers or stakeholders to provide comments on our ESG report or recommend ESG improvements within the Group. For details in relation to our financial performance and corporate governance, please visit our website on http://www.jnpmm.com and our Annual Reports. We also treasure your feedback and comments on our sustainability performance, please send your feedback and other sustainability enquiries to our head office at ir@jnpmm.com.

The Board of Directors is responsible for monitoring the Group's ESG-related risks over time. It has confirmed that appropriate and effective ESG risk management and internal control systems were in place during the Reporting Year.

ABOUT KANGLI

Our Business

The Group was listed on the Main Board of the Stock Exchange in 2018 (stock code 6890). The principal operating activity of the Group is production and sales of cold-rolled steel products, under its trademark "江南", to midstream steel product processors for further processing and to home appliance manufacturers for production of home appliances like refrigerators, washing machines and ovens. Due to the high quality of our galvanized steel products, we have maintained the leading position in the industry.

Our Vision

To maintain the leading position in the industry in order to provide high quality galvanized steel products in Jiangsu Province, PRC.

Our Mission

To provide the best and safe products to meet customers' demands and create value to the shareholders and investors based on our experienced and reliable working team with extensive knowledge of the industry.

Board of Directors (the "Board")

As at the date of this report, the Board consists of:

Executive Directors	Independent Non-Executive Directors
Ms. Liu Ping *(Chairman)*	Mr. Lau Ying Kit
Mr. Zhang Zhihong *(Chief Executive Officer)*	Mr. Cao Baozhong
Mr. Mei Zefeng	Mr. Yang Guang
Mr. Xu Chao	
Ms. Lu Xiaoyu	

ESG MANAGEMENT

As a leading galvanized steel products manufacturer that acts as a responsible corporate citizen, the Group acknowledges that quality management of environmental and societal activities is of utmost importance in promoting sustainable economic growth. This report summarizes the strategies, practices and visions of the Group in relation to ESG issues, and conveys a clear message of the Group's devotion for sustainable development. To address the global concern about climate change and to fulfil our corporate social responsibilities, the Group has incorporated the climate-related issues into our risk management system to enhance our resilience and adaptive capacity to potential climate change impacts. All potential risks that may have impact on the Group's businesses will be covered and evaluated in the annual enterprise risk assessment.

The Board has an overall responsibility for overseeing the Group's ESG-related risks and opportunities, establishing and adopting the ESG-related strategies and targets of the Group, reviewing the Group's performance annually against the targets, and revising the strategies as appropriate if significant variance from the target is identified. The executive directors are responsible for conducting materiality assessments and prioritization of ESG issues and prioritising them, communicating with stakeholders to understand their views on ESG issues, as well as promoting the implementation of respective strategies. To implement sustainability strategies which apply to all levels of the Group, a top-down approach is adopted for the following sustainability strategies:

1. To achieve environmental sustainability

2. To respect human rights and social culture

3. To engage with stakeholders

4. To support our employees

5. To sustain local communities

The executive directors will continuously monitor the implementation of ESG-related measures by active communication with functional departments, and review the ESG management system on an annual basis. The Board will continue to review and refine the Group's sustainability measures and performance in order to create long-term value for all stakeholders and the communities in which we operate.

OUR STAKEHOLDERS

The Group strongly believes that the views of its stakeholders are crucial for sustaining business success. We actively strive to better understand and engage our stakeholders via transparent communication. Through constantly understanding the expectations and needs of our stakeholders, we continue to improve our sustainable development strategies and focus our efforts on ESG issues most relevant to our stakeholders. The following table provides an overview of the eight core stakeholder groups identified and our engagement methods.

Stakeholders	Probable issues of concern	Communication and response
The Stock Exchange	Compliance with listing rules, timely and accurate announcements.	Meetings, training, roadshows, workshops, programs, website updates and announcements.
Government	Compliance with laws and regulations, prevention of tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Suppliers	Payment schedule and demand stability.	Site visits.
Shareholders/Investors	Corporate governance system, business strategy and performance, and investment return.	Organizing and participating in seminars, interviews, shareholders' meetings, issue of financial reports and/or operation reports for investors, media and analysts.
Media and Public	Corporate governance, environmental protection, and human rights.	Publishing newsletters on the Company's website.
Customers	Product quality, delivery times, reasonable prices, production value, labour protection and work safety.	Field investigation, and after-sales services.
Employees	Rights and benefits, employee compensation, training and development, work hours, and working environment.	Union activities, trainings, interviews with employees, employee handbooks, internal memos, employee's suggestion boxes.
Community	Community environment, employment and community development, and social welfare.	Community activities, employee voluntary activities, community welfare subsidies and charitable donations.

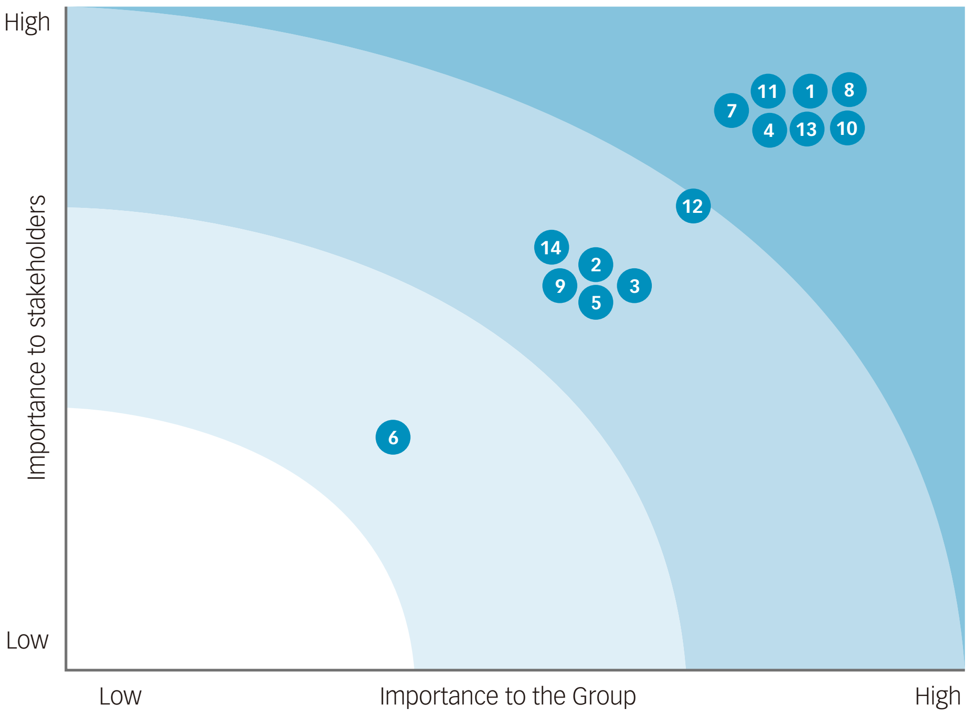
MATERIALITY ASSESSMENT

The Group has identified ESG issues that have potential or actual impact on its sustainable development from various sources, such as issues identified in previous ESG reports, internal policies, industry trends and the Sustainability Accounting Standards Board's Materiality Map. The Group also actively engages with its stakeholders to understand their views on material ESG issues. The ESG issues have been analysed with reference to an array of factors, including the Group's overall strategy, development, and goals and targets.

The material ESG issues are those which have or may have a significant impact on:

- The PRC's galvanized steel products industry;
- The global galvanized steel products market;
- The current or future environment or society in which we operate;
- Our financial performance or operations; and/or
- Our stakeholders' assessments, decisions and actions.

The Group has conducted a materiality assessment to rate the identified ESG issues that are pertinent to its business and stakeholders, and their respective levels of impact. The assessment results are shown below:



ESG issues	
1. Emissions	8. Health and Safety
2. Hazardous Waste	9. Development and Training
3. Non-hazardous waste	10. Labour Standards
4. Energy Consumption	11. Supply Chain Management
5. Water Consumption	12. Product Responsibility
6. Climate Change	13. Anti-corruption
7. Employment	14. Community Investment

SECTION A: ENVIRONMENTAL

Overview

The Group recognises the significance of environmental protection and pledges not to grow its business at the expense of the environment. A healthy environment is fundamental to the Group's sustainable development. Hence, we endeavor to integrate components of environmental sustainability into our business operations, so as to decrease our carbon emission level and the relevant intensity. We strictly abide by the relevant environmental laws and regulations in the PRC, including but not limited to the "Environmental Protection Law", "Atmospheric Pollution Prevention and Control Law", "Water Pollution Prevention and Control Law", "Solid Waste Pollution Prevention and Control Law" and "Energy Conservation Law".

With our dedicated effort, there was no material non-compliance in environmental laws and regulations for the Reporting Year. The Group will continue to stay alert to any non-compliant behaviour related to critical environmental issues.

Emissions

Air Emissions

The Group's core business activities include manufacturing and processing galvanized steel products, which require natural gas to drive production facilities such as fixed machines and equipment. These fixed machines and equipment are mainly used for steel-galvanizing, colour-coating and hydrogen production. Apart from stationary machineries, some mobile combustion sources were also involved in our business operations during the Reporting Year. The material air pollutants emitted were mainly composed of Sulphur Oxides ("SO_x"), Nitrogen Oxides ("NO_x") and particulate matter ("PM").

During the Reporting Year, the total natural gas and petrol consumptions amounted to approximately 10 million m^3 (2020: 11 million m^3) and 28,700 L (2020: 29,300 L) respectively. The total air pollutants produced by the fuel consumption approximated to 1,380 kg (2020: 2,020 kg), with an intensity of approximately 2.8 kg per employee[1] (2020: 4 kg). Compared to last year, the total air pollution emission during the Reporting Year has decreased by 32% mainly due to our energy efficiency measures for fixed machines and equipment. These measures include, but are not limited to, requiring employees to turn off idle equipment, using energy-efficient appliances, performing regular checks and maintenance of fixed machines.

Types of Air Pollutants	Fixed combustion source[2]		Mobile combustion source	
	2021	2020	**2021**	2020
NO_x (kg)	**1,343.69**	1,975.56	**27.91**	30.68
SO_x (kg)	**6.72**	9.88	**0.42**	0.43
PM (kg)	**N/A**	N/A	**2.05**	2.26
Total	**1,350.41**	1,985.44	**30.38**	33.37

1 Number of employees during the Reporting Year is 500 (2020: 484).

2 The air pollutant emission factor from natural gas consumption was assumed to be same as LPG, which was equivalent to 4 and 0.02 kg/million MJ of gas for NOx and SO_x respectively according to "Appendix 2: Reporting Guidance on Environmental KPIs" issued by HKEX.

Greenhouse Gas Emissions

During the Reporting Year, the total greenhouse gas ("GHG") emission by the Group weighted approximately 59,000 tons (2020: 81,700 tons), with a 28% decrease compared to last year due to the decrease in emissions from natural gas and electricity consumption.

The main culprits of the GHG emission were direct emission from operations (scope 1 emission) and indirect emissions from electricity consumption (scope 2 emission), which accounted for approximately 38% and 62% of the GHG emission respectively. Alongside the aforementioned sources, other indirect emission (scope 3 emission) that occurred outside of operations, including electricity used in fresh water processing, paper waste disposal at landfills and business air travels by our employees, which in aggregate, accounted for less than 1% of the Group's total GHG emission.

The GHG emission intensity was approximately 118 tons per employee (2020: 169 tons per employee). Compared with last year, there is a 30% decrease owing to our effective energy efficient measures by the end of the Reporting Year.

GHG Emission Sources	**GHG produced in 2021 *(tons)***	GHG produced in 2020 *(tons)*	Variance *(%)*
Scope 1 – Direct emission from sources			
– Fixed machines and equipment	**22,032.49**	32,393.12	–31.98
– Mobile vehicles	**77.81**	79.43	–2.04
Scope 2 – Indirect emissions from electricity and gas consumption			
– Electricity consumption[3]	**36,810.46**	49,198.89	–25.18
Scope 3 – Other indirect emission sources			
– Paper waste disposal in landfills	**11.74**	11.87	–1.10
– Electricity used for processing fresh water[4]	**44.08**	55.39	–20.42
– Business air travel by employees	**8.87**	9.75	–9.03
Total	**58,985.45**	81,748.45[5]	–27.85
Intensity per employee	**117.97**	168.90	–30.15

As electricity consumption and operation of fixed machines and equipment were the major sources of the Group's GHG emission, the Group will continue to strengthen its energy-saving measures in daily operation. We encouraged our staff to turn off idle appliances and use energy-efficient appliances. The use of natural lighting in both our office and workshops was also encouraged. Apart from these measures, the Group will also conduct regular checks and maintenance of fixed machines and equipment, in order to ensure energy efficiency and minimize the production of GHG. In the next Reporting Period, the Group aim to maintain the GHG emissions intensity at/below 120 metric tons CO_2e per employee.

3 According to the "General Guideline of the Greenhouse Gas Emissions Accounting and Reporting" issued by the Ministry of Ecology and Environment, the national emission coefficient is 0.6101 kg/kWh (2020 East China Area's emission coefficient: 0.7921 kg/kWh).

4 The per unit electricity consumption for processing fresh water in the PRC was assumed to be 0.596 kWh (2020: 0.606 kWh), which were same as the case in Hong Kong according to the 2019/2020 Annual Report of Water Supplies Department.

5 The GHG emission and its intensity for the year of 2020 were re-examined and restated for better comparison purpose.

Waste Management

Hazardous Waste

Unregulated disposal of hazardous waste can result in natural hazards, undermining both the well-being of the population and the nature. Although the Group's operation inevitably involves the production of chemical waste, stringent waste management has always been upheld. During the Reporting Year, hazardous waste was under good control as we continued to adopt our well-developed waste management system. Hence, no significant amount of hazardous waste was disposed or emitted.

Sewage

Sewage was produced in the Group's daily production operation, such as the process of pickling and degreasing metals, as well as the operation of levelling machines and rollers. To minimize the amount of sewage disposal, we have always adopted a sewage-handling system with closed-circuit. The system purifies sewage and converts it into reusable clean water. During the Reporting Year, no significant amount of sewage was disposed by the Group.

Acid Waste

During the metal pickling process, acid waste would be produced. During the Reporting Year, the Group produced approximately 6,950.55 tons of acid waste (2020: 11,800 tons), with an intensity of approximately 14 tons per employee (2020: 24 tons per employee). The decrease in acid waste produced was due to the improvement in product specifications. To ensure safe disposal of acid waste, the Group has implemented two approaches. The first approach was an internal neutralization system that neutralized acid waste with alkali to produce pH-neutral sewage for further processing in the sewage-handling system. The Group closely monitored the neutralization process by frequently check if the alkali maintained at a pH value of around 11, so that the system could operate as intended. After that, the sewage would be processed as mentioned above.

Alongside the internal neutralization system, the Group has also contracted with qualified external waste management service providers to transfer acid waste. The Group has kept proper record of the transfers. By monitoring the process closely, the Group ensured that the transfers were implemented effectively, as well as minimizing the possibility of irresponsible disposal of acid waste. With our efforts in regulating acid waste disposal, no significant amount of acid waste was disposed by the Group, with all the acid waste being handled in appropriate manners following relevant laws and regulations, during the Reporting Year.

Gaseous Waste

As a range of chemicals was used in our production, several kinds of gaseous hydrocarbons were produced. To counter the gaseous waste produced, the Group has installed a hydrocarbon removal system that analyzed gaseous waste production by automatically sketching various kinds of data graphs. Based on the data collected, the system then operated to remove any hydrocarbons produced by undergoing chemical reactions, physical removal or incineration. The system was proven to be effective as no significant amount of gaseous waste was emitted during the Reporting Year. To further strengthen our ability of gaseous waste removal, the Group will conduct frequent system checks and maintenance, so that it can operate as intended to minimize the emission of hydrocarbons into the atmosphere.

Other Hazardous Waste

Alongside the aforementioned waste, there were other kinds of chemical waste including oil, emulsion and sludge. Similar to the management process of acid waste, the Group has contracted with qualified external waste management service providers to transfer the chemical waste. The Group has also kept proper records of the transfers, so as to ensure that the process was implemented effectively, as well as to minimize the possibility of irresponsible hazardous waste disposal. On top of this, the Group reported to the government on a regular basis regarding the amount of chemical waste transferred.

Policies of Hazardous Waste Management

With regards to the above hazardous waste, the Group has established comprehensive policies to manage the storage, handling and transfer of waste in order to avoid any leakage of chemicals, in turn protecting both its employees and the environment. The hazardous wastes must:

1. be managed by authorized personnel;

2. be stored on a timely basis;

3. be collected, stored, transferred, used and handled in compliance with the laws and regulations; and

4. be recorded on the relevant register.

The Group will constantly strive to minimize the risk of natural hazards caused by unregulated waste disposal. In the next Reporting Period, the Group will make continuous efforts in maintaining the intensity of total hazardous waste produced at/below 14 tons per employee.

Non-Hazardous Waste

There were mainly two types of non-hazardous waste produced by the Group, namely paper waste and inert waste, which was the remaining scrap materials after metal processing. As the remaining materials were re-sold to third parties as raw materials for further production, only paper waste was disposed to the landfills. The total paper waste disposed by the Group during the Reporting Year amounted to approximately 2.45 tons (2020: 2.47 tons), with an intensity of approximately 4.89 kg per employee (2020: 5.11 kg per employee).

With our effort in waste reduction, the total paper waste produced during the Reporting Year has decreased by 1%, with its corresponding intensity dropping by approximately 4%.

To maintain a low level of non-hazardous waste, we advocate a paperless work environment and encourage our employees to use electronic systems instead of printed documents. A recycling box has also been placed in the office to collect paper products including paper boxes, envelopes and reusable paper. To further strengthen our reduction in paper waste, the Group will advocate natural resources conservation in a bid to remind our employees of the importance of paper waste reduction. The Group will make continuous efforts in maintaining the intensity of total non-hazardous waste at/below 2.5 tons per employee in the next Reporting Year.

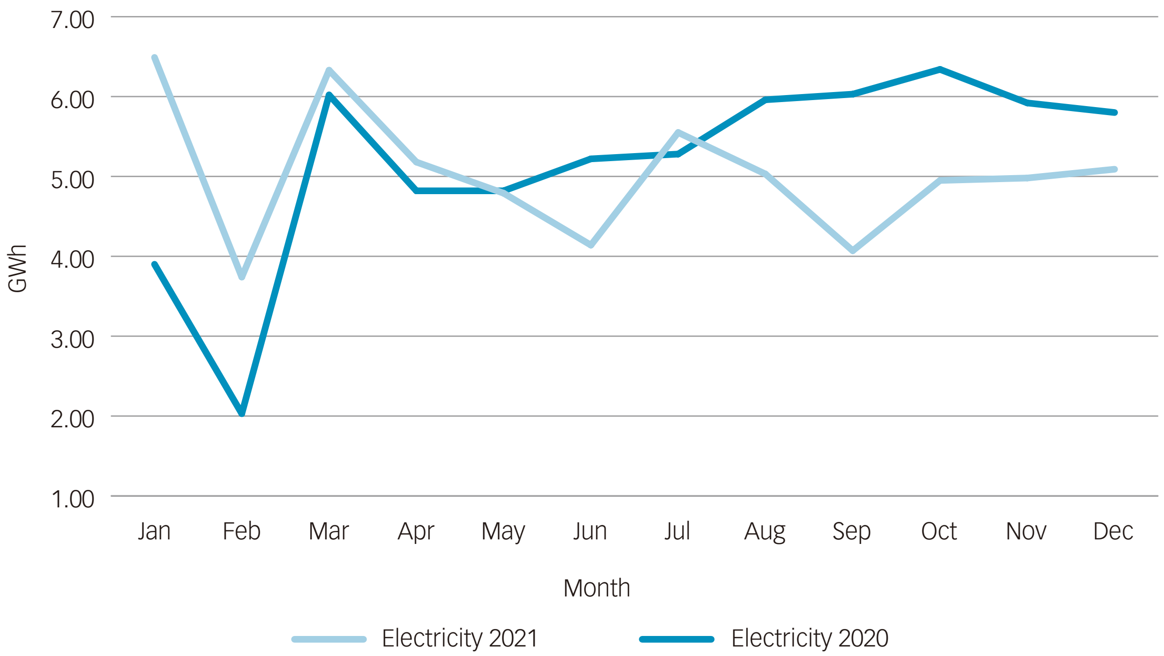
Use of Resources

The Group pledges to maintain its position as an environmental-friendly and sustainable enterprise. We understand that the use of resources creates indirect emissions as well. As such, we have undertaken a range of carbon reduction measures in our daily operations to reduce our carbon footprint.

Energy Consumption

During the Reporting Year, the total electricity consumption amounted to approximately 60.34 GWh (2020: 62.11 GWh), with an intensity of approximately 121 MWh per employee (2020: 128 MWh per employee). Compared with last year, the total electricity consumption has decreased by approximately 3%, with a decrease of 6% intensity. Meanwhile, the total natural gas consumption during the Reporting Year was approximately 110 GWh (2020: 143 GWh), with an intensity of approximately 220 MWh per employee (2020: 296 MWh per employee). The Group will make continuous method in working towards the target of maintaining the intensity of electricity and natural gas consumption at/below 121 MWh and 220 MWh per employee respectively.

Electricity Consumption



Energy Efficiency

The Group places much emphasis on energy conservation. While high energy consumption was unavoidable in our production processes, the Group encourages its employees to switch off idle appliances and ensure that all electronic appliances are switched off before they leave the office. In the office and factories, the Group also encouraged its staff to develop an energy-saving habit by using natural lighting instead of electric lighting whenever possible. To further reduce energy consumption, the Group will purchase energy-efficient electronic appliances in the future, as well as upgrade current appliances to energy-efficient alternatives in the long run.

Water Consumption

Water is one of the most precious natural resources. High consumption of water could undermine the water resources available. In the meantime, processing of fresh water and sewage require electricity, causing more carbon emissions indirectly. Thus, the Group took various measures to actively conserve water. With the improvement in production process, the Group is able to reuse some of the water resources during their production. As a result, the Group consumed approximately 106,000 m^3 (2020: 130,000 m^3) water in its business operation during the Reporting Year, with a reduction of approximately 19% compared to last year. Production processes contributed to most of our water consumption. During the Reporting Year, water consumption intensity was approximately 210 m^3 water per employee (2020: 270 m^3 water per employee), which saw a decrease of 22% compared to last year. As our water sources were from the governmental body as well as our own sewage purification system, there was no water supply issue for the Reporting Year.

Water Management

To raise the awareness of water conservation among employees, the Group encourages them to save water by posting reminder labels in the office. We will also continue to monitor our water usage data closely, so as to minimize the corresponding carbon footprint. The Group will make continuous method in working towards the target of maintaining the intensity of water consumption at/below 212 m^3 per employee.

Packaging Materials

In light of the Group's business nature, no material usage of packaging materials was involved in its ordinary course of business.

The Environmental and Natural Resources

The Group values environmental sustainability and strives to incorporate it into every aspect of its business. As aforementioned, we have adopted a variety of environmental-friendly practices in our business.

At the design stage, we require relevant departments to simplify the production process and adopt non-polluting raw materials, which help to reduce potential pollutants and contribute to environmental sustainability. During the production stage, the usage of all kinds of polluting materials are recorded by the production teams as required by the Group's policy, which serves as a reference for future decision-making. Strict guidelines regarding management and monitoring of pollutants are also adopted by the Group, which help its employees to observe the relevant laws and regulations, and promote corporate environmental responsibility.

Besides, the Group has continued to improve its workshops and production sites by planting trees and sod. In short, the Group has integrated various means of environmental protection in order to cut down pollution and enhance its employees' environmental awareness in its business operations.

With our efforts made in environmental protection, we are pleased to report that there was no material non-compliance issue regarding relevant laws and regulations for the Reporting Year.

Climate Change

The Group has taken into account the potential climate-related risk according to the recommendations of the Task Force on Climate-related Financial Disclosures. The Board regularly reviews and identifies all climate-related issues that may pose risks to the Group in the short, medium and long term. During the Group's annual enterprise risk assessment, all potential risks and opportunities arisen from climate change are covered, and their mitigation strategies are evaluated. The potential physical risk and transition risk from climate change which may pose adverse financial impacts on the Group's businesses, and their corresponding mitigation strategies are shown below:

Risk Type	Potential Financial Impact ■ Low ■ Medium ■ High	Short-term (This Reporting Year)	Medium-term (1-3 years)	Long-term (4-10 years)	Mitigation Strategy
Transition Risks	**Policy and Legal** Increased compliance costs and potential disruption related to new climate-related regulations				Regularly monitor the regulatory environment and strictly adhere to the Group's emission-reduction measures to maintain a low emission level.
	Market Reduced demand for goods due to shift in consumer preferences to green products.				Continue to monitor the product market to ensure that our products exceed customer demands and expectations.
Physical Risks	**Acute** Extreme weather conditions such as flooding and storms that lead to supply chain disruption, reduction of revenue and loss of property.				Maintain a large supplier base and set up safety measures and contingency plans in regards to extreme climate events.
	Chronic Increased operating costs related to increased need for cooling and heating due to changing temperatures.				Adopt the Group's energy conservation measures detailed in the above subsection headed "Energy Efficiency".

The Group is confident that both the physical and transition risks do not have a material impact on the Group's operation. Nonetheless, the Group will continue to monitor any climate change risk to minimize our exposure to both physical and transition risks.

SECTION B: SOCIAL

Employment

Employees are of top priority to the Group as they are one of our most cherished assets. We value all our employees' contribution and dedication to the business equally. We strive to grow with our employees because we firmly believe that it is mutually beneficial to both the employees and our business development in the long run. Hence, we adopt an employee-oriented approach in creating our workplace, as well as recruiting, training and retaining talents for our business development.

The Group upholds the principle of fairness and is dedicated to maintaining equal opportunity of employment in relation to personnel matters, irrespective of age, gender, marital status, religion, disability, race or nationality.

The Group has clear policies on employee compensation, dismissal, recruitment, promotion, working hours, rest periods, benefits and welfare. Any updates and amendments are communicated to employees via email or in company meeting. The Group strictly complies with relevant employment laws and regulations in the PRC, including but not limited to the "Labour Contract Law", the "Labour Law, Provisions of the State Council on Working Hours of Workers and Staff", "Social Insurance Law", the "Regulations on Paid Annual Leave for Employees" and "Regulations on Management of Housing Provident Fund". For Reporting Year, there was no substantial case of non-compliance regarding employment laws and regulations.

Harmonious Workplace

To build a harmonious and inclusive workplace, as well as diversifying the backgrounds of our employees, we recruit talents based on experience, expertise and values, regardless of race, colour, creed, national origin, ancestry, sex, marital status, disability, religious, political affiliation, age or sexual orientation. Equal opportunities and diversity for all employees are highly valued by the Group.

As at 31 December 2021, the Group had a total of 500 employees. Breakdowns of the employees by gender, age group, geographical region and employment type for the Reporting Year are set out below:

Number of Employees in Relevant Category	
By Gender	
Male	333
Female	167
By Age Group	
<25	38
25-29	77
30-39	172
40-49	155
>50	58
By Employment Type	
Full Time	500
Part Time	0
By Region	
Hong Kong	1
The PRC	499

Employee Benefits

The Group is committed to establishing good long-term relationships with all our employees. We offer competitive and attractive remuneration package, including but not limited to on-the-job training, year-end bonus, and performance-based incentive bonus to our employees. Social Insurance and Housing Provident Fund are also provided. We regularly review remuneration package of our employees to reward them for their contribution and retain high-calibre talents. The decisions of salary increment, bonus amount and promotion are based on continuous assessment.

Attractive number of leaves are provided to our employees to ensure that they can enjoy work-life balance. Depending on the employment type, we offer our staff three different working-hour systems, namely normal office hour system, two-shift system and three-shift system, all of which can provide enough rest time for our employees. Besides workplace-related benefits, the Group regularly organizes different employee activities such as quiz competition, football matches and sports day to boost team cohesion. We believe that a harmonious workplace is beneficial to our employees' well-being, which in turn enhances their productivity at work.

During the Reporting Year, employee turnover across the Group was 30% and its compositions are as follows:

Percentage of Employee Turnover in Relevant Category	
By Gender	
Male	20%
Female	35%
By Age Group	
<25	61%
25-29	40%
30-39	40%
40-49	15%
>50	5%
By Region	
Hong Kong	0%
The PRC	30%

Occupational Health and Safety

The Group is committed to safeguarding the safety, health and welfare of its employees and the general public who are likely to be affected by its business operations. We have implemented a range of occupational health and safety policies that outline the safety requirements and operating guidelines of every job position, as well as the handling and reporting protocols for accidents. Safety training and fire safety management protocols are also included in our policies.

The Group believes that preventive measures are far more important than reactive measures. Hence, we have implemented various measures to promote workplace safety among employees. We have posted safety requirements and guidelines regarding all production modes in every workshop. We have also equipped our office and workshops with sufficient fire equipment, such as fire extinguishers and fire hydrants. The equipment is under regular checks to confirm that they are in good condition. Fire and emergency drill are organised on a regular basis to familiarize our employees with the protocols for emergency situations. Performance of these drills are recorded for reviews and improvements. Safety training is also provided to our employees to ensure that they fully understand our safety policies and requirements, and to prevent them from getting injured.

The Group has set a safety production target and plan, aiming for:

1. 0 cases of serious injury or fatality;

2. 0 cases of serious fire accident or chemical incident; and

3. an injury rate of less than or equal to 3% per year.

In the past three Reporting Years, 18 cases of reported work injuries and 203 lost days due to work injuries were recorded by the Group. During the Reporting Year, there were 4 cases (2020: 5 cases) of injury with no serious injury or fatality reported. In these cases, 6 working days (2020: 7 days) were lost as we have pledged to provide sufficient days of sick leave for our employees to compensate for their injuries, and to allow sufficient time for recovery. The Group will conduct regular safety training to ensure employees' knowledge are up-to-date. Frequent checks and maintenance of machineries will also be conducted to ensure that they are safe for use.

In response to COVID-19, the Group has implemented additional measures to safeguard the health of its employees. Employees are required to record their body temperature on a daily basis. Besides, the Group also maintains a stable stock of surgical masks and provides its employees with sufficient masks as they are required in daily operations of the workplace.

Development and Training

The Group understands that employee development is indispensable for the company's growth, hence we promise to offer sufficient and effective training to its employees. We also regularly review the ability of employees in different employment levels so that our training can cater to their needs accordingly.

Internal training is provided to our employees to enhance their performance, professional skills and knowledge. External training courses and assessments initiated by our employees are also welcomed with subsidies and monetary rewards offered to employees who obtain certain any professional certificates. We conduct employee performance appraisals on a regular basis. If an employee's performance is not on par with our standard, additional training and assessments will be required, which helps maintain his/her quality of work.

As mentioned above in the Occupational Health and Safety section, our employees are required to attend safety training. The safety training focus on the prevention of accidents and procedures for the use of machineries, handling of chemicals, emergency management and incident reporting.

During the Reporting Year, 92% of total employees completed training. The percentage of employees trained during the Reporting Year are as follows:

Percentage of Employees Trained	
By Gender	
Male	95%
Female	85%
By Employment Category	
Managers	100%
Mid-level employees	100%
Entry-level employees	92%

During the Reporting Year, the average training hours completed per employee was 5.88 hours. The average training hours completed per employee in relevant categories of the Group during the Reporting Year are as follows:

Average Training Hours	
By Gender	
Male	6.13
Female	5.40
By Employment Category	
Managers	8.33
Mid-level employees	32.00
Entry-level employees	4.60

Labour Standards

The Group has complied with the relevant laws and regulations in preventing child labour, forced labour, minimum wage specified by the government, as well as Social Insurance and Housing Provident Fund scheme. The Group guarantees that no employee is made to work against his/her will, or work under forced labour, or subject to coercion related to work. The Group adopts a whistle-blowing mechanism, allowing employees to voice out difficulties or injustice they face, so that management can follow up on the matter. Recruitment of child labour is strictly prohibited. New recruits are required to provide a copy of identification document for age verification. No employee under the age of 18 has been recruited in the Reporting Year.

Supply Chain Management

Being a group that manufactures and processes galvanized steel products, we recognize the importance of supply chain management regarding our major inventories – hot rolled coils and zinc blocks. The Group works closely with suppliers to reduce the environmental impact and risk arising from supply chain to ensure the quality of goods and services offered to the customers. During the supplier selection process, we take into consideration a range of criteria, including qualification, reputation, product quality, quality consistency, compliance with environmental and social regulations, and the ability to deliver on time. Only suppliers who have passed the initial assessment can be added to our approved supplier list. Suppliers have to pass the annual assessment to be maintained on the list. We remove suppliers with unsatisfactory results from the approved supplier list to ensure the use of high-quality raw materials. As at 31 December 2021, we have developed long term relationships with 222 approved suppliers in the PRC, supplying raw materials and auxiliary materials.

The Group recognizes the importance of delivering high-quality products on time. Having inventories delivered by the suppliers promptly plays a significant role in our supply chain. To prevent the risk of inventory shortage caused by delayed delivery by the suppliers, we have stocked up our inventories to a safety level of 10,000 to 20,000 tons of raw materials. In addition, to minimize the risk of delayed delivery due to natural disasters and extreme weather, we have diversified our major sources of hot-rolled coils supply to two separate suppliers, with one being in eastern PRC and another in northern PRC. With the above mitigating measures, the Group did not encounter any inventory shortage in the Reporting Year.

Being the midstream in the supply chain, not only do we focus on the upstream suppliers, but we also value the development of long-term relationship with our downstream customers. As aforementioned, timely delivery is fundamental to successful supply chain management. To enhance our efficiency in delivering products, the Group has adopted both motor and water transport depending on the travel distance. By adopting two different delivery means, it helps reduce the operating costs and enhance the efficiency of delivery significantly.

Product Responsibility

The Group is committed to complying with, and even exceeding relevant industry and safety standards for manufacturing and processing galvanized steel products. We place strong emphasis on quality control in pursue of safeguarding the Group's reputation and public interests. With our preventive measures and stringent quality control system, there was no non-compliance issue reported during the Reporting Year.

Quality Standards

The Group has set up a Quality Policy to ensure that we provide satisfactory products and services that meet customers' needs. The policy covers the inspection of purchased materials, inspection of production processes and procedures of dealing with unsatisfactory products. We have continued to maintain our quality management system to a high standard. With regard to our compliance with relevant requirements, the Group has been certified with ISO 9001: 2015 standard, which is applicable to the "Production of Cold Rolled Coils, Hot Zinc Coating Coils, and Color Coating Steel Coils". During the Reporting Period, no product sold or shipped was subject to recalls for safety or health reasons.

Internal Inspection

The Group conducts 4 stages of internal inspection starting from i) purchased materials, ii) the first stage of work-in-progress products, iii) work-in-progress products, and iv) finished goods. At every inspection stage, only the materials and products that have passed our assessment can be used for further processing. For materials and products below standard, the quality inspectors either consider re-work of the materials or disposal according to the guidelines of the management procedures. Rectification report is also prepared for every unqualified case, in order to analyze the cause and give recommendations for future improvements.

Customers' Response

The Group always treasures customer relationships. We conduct Customer Satisfactory Survey regularly by inviting our customers to evaluate and rate our performance regarding the product quality, product price and ability of on-time delivery. Most of our evaluation results are of satisfactory results. Negative comments received from the survey would be fully investigated and addressed, so that our operation process and final products would be subject to continuous improvement. During the Reporting Year, there were 22 complaints reported regarding product quality. We recorded the complaints and ways of handling complaints in detail, so that we could analyze the cause and prevent similar cases from repeating in the future. All complaints received during the Reporting Year were resolved successfully. We will continue to keep a good relationship with our customers and maintain our current practice of complaint management.

Intellectual Property Rights

The Group recognises the importance of protecting and enforcing its intellectual property rights, and strictly complies with all the relevant laws and regulations, including but not limited to the "Trade Marks Ordinance and Copyright Ordinance" in Hong Kong, and "Trademark Law" and "Patent Law" in the PRC. The Group has established an "Intellectual Property Management Policy" that includes measures for enforcing and protecting its intellectual property rights, registering new patents, as well as encouraging the Group's research and development of new intellectual property.

The Group have register intellectual property that are material to our business operation. To prevent infringement of intellectual property rights, we have signed Confidentiality Agreements or Non-Disclosure Agreements with our employees and subcontractors. The Group currently has 3 trade marks and 49 patents that are material to its business.

Data Privacy

The Group prohibits any leakage of data relating to the Group, its suppliers and customers to any external parties. Disciplinary action will be taken against the employee in case of breach and the Group will reserve its right to legal action. The Group has established an "Archives and Records Management Policy", which includes measures for organizing and protecting physical data files of the Group, access right and procedures of accessing files, etc. The Group's practices in collecting, using and maintaining its information are strictly compliant with the "Personal Data (Privacy) Ordinance" in Hong Kong and "Personal Information Protection Law" in the PRC.

Anti-corruption

The Group has established an "Anti-Bribery & Anti-Corruption Management Policy" which outlines the definition of bribery and corruption, the Group's stance, and the responsibilities of its employees to anti-corruption. The Group takes this matter in serious manner and prohibits its employees from accepting any forms of gifts and benefits without proper permission. Although the Group did not organize any anti-corruption training during the Reporting Year, all new recruits are required to sign an Employee Integrity Agreement, such that no bribe, fraud or money laundering shall be performed for their personal gains at the expense of the Group's interests. If an employee breach the agreement, he/she will be penalized and the Group will report the case to relevant government authorities. As at 31 December 2021, there was no legal case relating to corruption brought against the Group or its employees. The Group is not aware of any bribery, extortion, fraud or money laundering violations.

The Group encourages its employees to report alleged malpractices or misconduct. We value and welcome our employees to report any suspected malpractices, while the management will take immediate action to investigate the issue. The Group promises to fully support the whistleblowers with the identity of whistleblowers being well protected. We will also stay alert to corruption cases and specific practices pertinent to the industry.

Community Investment

To support local community, the Group has actively participated in community investment. During the Reporting Year, the Group has made a charitable donation of 30,000 Renminbi to the Disabled Persons Federation of Changzhou City to support the autistic patient. The Group also organized a volunteering activity at the local library to help with cleaning, providing guidance to children and elderly visitors, as well as organizing the library's books and files. A total of 25 employees participated in the event, contributing 25 hours of charitable activity to the local community.

We will continue to invest more resources and engage more employees in community activities, as well as invest our resources in areas other than poverty. By doing so, the Group hopes to encourage its employees to serve the community, while promote corporate social responsibility and bring positive impacts to the society.

ENVIRONMENTAL DATA

Emissions Indicators	Year ended 31 December 2021	Year ended 31 December 2020
Air Emissions		
Total air emissions	**1,380.79 kg**	2,018.81 kg
Air emission intensity	**2.76 kg per employee**	4.17 kg per employee
NO_x emission		
Fixed machines and equipment using natural gas	**1,343.69 kg**	1,975.56 kg
Mobile vehicles	**27.91 kg**	30.68 kg
SO_x emission		
Fixed machines and equipment using natural gas	**6.72 kg**	9.88 kg
Mobile vehicles	**0.42 kg**	0.43 kg
PM emission		
Fixed machines and equipment using natural gas	**–**	–
Mobile vehicles	**2.05 kg**	2.26 kg
Greenhouse Gas Emissions		
Total greenhouse gas emissions	**58,985.45 tons**	81,748.45 tons
Greenhouse gas emission intensity	**117.97 tons per employee**	168.90 tons per employee
CO_2 emission		
Fixed machines and equipment using natural gas	**22,032.49 tons**	32,392.67 tons
Mobile vehicles	**77.81 tons**	79.43 tons
Electricity consumption	**36,810.46 tons**	49,198.89 tons
Electricity used for processing fresh water	**44.08 tons**	55.39 tons
Paper waste disposal at landfills	**11.74 tons**	11.87 tons
Business air travel by employees	**8.87 tons**	9.75 tons
CH_4 emission		
Fixed machines and equipment using natural gas	**0.41 tons**	0.45 tons
Mobile vehicles	**0.15 tons**	0.16 tons
N_2O emission		
Fixed machines and equipment using natural gas	**–**	–
Mobile vehicles	**9.84 tons**	10.05 tons

Emissions Indicators	Year ended 31 December 2021	Year ended 31 December 2020
Hazardous waste		
Total hazardous waste produced	6,950.55 tons acid waste	11,774.08 tons acid waste
Hazardous waste intensity	13.90 tons per employee	24.33 tons per employee
Non-hazardous waste		
Total non-hazardous waste produced (paper waste)	2.45 tons	2.47 tons
Non-hazardous waste intensity	4.89 kg per employee	5.11 kg per employee
Use of Resources Indicators		
Electricity consumption		
Total electricity consumption	60.34 GWh	62.11 GWh
Electricity consumption intensity	120.67 MWh per employee	128 MWh per employee
Natural gas consumption		
Total natural gas consumption	110.08 GWh	143 GWh
Natural gas consumption intensity	220.16 MWh per employee	296 MWh per employee
Water Consumption		
Total water consumption	105,664 m^3	130,564 m^3
Water consumption intensity	211.33 m^3 per employee	269.76 m^3 per employee

KPMG

Independent auditor's report to the shareholders of
KangLi International Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of KangLi International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 69 to 123, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (CONTINUED)

Valuation of inventories

Refer to Note 13 to the consolidated financial statements and the accounting policies in Note 2(i)(i).

The Key Audit Matter	How the matter was addressed in our audit
At 31 December 2021, inventories of the Group comprised raw materials and consumables, and finished goods. The carrying amount of the Group's inventories at 31 December 2021 amounted to RMB388,881,000 which represented 20.3% of the Group's total assets, and write down of inventories of RMB14,498,000 was recorded. The Group's inventories are valued at the lower of cost and net realisable value. The net realisable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's steel products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale. The selling prices of the Group's steel products are mostly affected by the price volatility of raw materials, particularly if the market prices of raw materials decline significantly after the reporting date, the net realisable value of the Group's raw materials and finished goods may be less than the cost. We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realisable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias.	Our audit procedures to assess valuation of inventories included the following: • Obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over inventory management; • Obtaining an understanding of management's basis of estimating the net realisable value and the key judgement involved in estimating the future selling prices of steel products; • Evaluating the calculations made by management in arriving at the net realisable values of the inventories by assessing the reasonableness of the estimated selling prices of the steel products with reference to the market prices of raw materials and the accuracy of the costs of completion and the selling costs; and • Comparing the carrying values of finished goods, on a sample basis, to their selling prices as indicated in sales invoices subsequent to the reporting date to evaluate management's estimates of net realisable value.

KEY AUDIT MATTERS (CONTINUED)

Loss allowance for trade receivables

Refer to Note 14 to the consolidated financial statements and the accounting policies in Note 2(h)(i).

The Key Audit Matter

At 31 December 2021, the Group's gross trade receivables totalled RMB173,540,000. Loss allowance of RMB1,697,000 was recorded.

Management measured loss allowance at an amount equal to expected credit losses ("ECLs"). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). The ECLs take into account the ageing of trade receivable balances, the repayment history of the Group's customers of different risk characteristics, current market conditions, customer-specific conditions, and the Group's view of economic conditions over the expected lives of the trade receivables.

We identified loss allowance for trade receivables as a key audit matter because determining the level of loss allowance requires the exercise of significant management judgement which is inherently subjective.

How the matter was addressed in our audit

Our audit procedures to assess the loss allowance for trade receivables included the following:

- Obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls over the credit control, the trade receivables collection process and making loss allowances for trade receivables;
- Obtaining an understanding on the key data and assumptions of the ECL model adopted by the management, including the historical default data, ageing of trade receivable balances, credit terms, recent settlement patterns and forecast of future economic conditions;
- Assessing the reasonableness of management's estimates on loss allowance by examining the information used by management to form such judgements, including testing the accuracy of the historical default data and evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information;
- Assessing whether items were correctly categorised in the trade receivables ageing report by comparing a sample of individual items with the relevant underlying documentation; and
- Assessing the disclosures in the consolidated financial statements in relation to the loss allowances for trade receivables with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wan Chi Yau, Charles.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

25 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2021
(Expressed in Renminbi ("RMB"))

	Note	2021 RMB'000	2020 RMB'000
Revenue	4	**2,035,409**	1,606,146
Cost of sales		**(1,801,208)**	(1,429,676)
Gross profit	4(b)	**234,201**	176,470
Other (loss)/income	5	**(271)**	769
Selling expenses		**(55,233)**	(52,567)
Administrative expenses		**(20,322)**	(19,290)
Impairment loss on trade receivables	23(a)	**(785)**	(264)
Profit from operations		**157,590**	105,118
Finance costs	6(a)	**(22,943)**	(20,281)
Profit before taxation	6	**134,647**	84,837
Income tax	7	**(36,550)**	(12,426)
Profit attributable to equity shareholders of the Company for the year		**98,097**	72,411
Earnings per share			
Basic and diluted (RMB)	10	**0.16**	0.12

The notes on pages 76 to 123 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2021
(Expressed in RMB)

	2021 RMB'000	2020 RMB'000
Profit for the year	**98,097**	72,411
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements denominated in foreign currencies into presentation currency of the Group	**233**	(628)
Total comprehensive income attributable to equity shareholders of the Company for the year	**98,330**	71,783

The notes on pages 76 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2021
(Expressed in RMB)

	Note	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	11	**354,300**	294,369
Current assets			
Inventories	13	**388,881**	433,169
Trade and bills receivables	14	**721,918**	685,303
Prepayments, deposits and other receivables	15	**231,203**	235,231
Cash at bank and on hand	16 (a)	**216,064**	243,545
		1,558,066	1,597,248
Current liabilities			
Trade and bills payables	17	**515,758**	588,231
Accrued expenses and other payables	18	**40,040**	12,359
Bank and other loans	19	**503,927**	511,150
Lease liabilities	21	**1,808**	16,678
Current taxation	20(a)	**49,472**	39,637
		1,111,005	1,168,055
Net current assets		**447,061**	429,193
Total assets less current liabilities		**801,361**	723,562
Non-current liabilities			
Lease liabilities	21	**27,949**	28,201
Deferred tax liabilities	20(b)	**12,188**	13,211
		40,137	41,412
NET ASSETS		**761,224**	682,150
CAPITAL AND RESERVES	22		
Share capital		**534**	534
Reserves		**760,690**	681,616
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**761,224**	682,150

Approved and authorised for issue by the board of directors on 25 March 2022.

Liu Ping
Chairperson

Lu Xiaoyu
Director

The notes on pages 76 to 123 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2021
(Expressed in RMB)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 22(b)	Share premium RMB'000 Note 22(d)	Other reserve RMB'000 Note 22(e)	Capital reserve RMB'000 Note 22(f)	Statutory reserve RMB'000 Note 22(g)	Exchange reserve RMB'000 Note 22(h)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2020	534	192,182	180,000	107,021	14,734	(68)	120,308	614,711
Changes in equity for 2020:								
Profit for the year	–	–	–	–	–	–	72,411	72,411
Other comprehensive income for the year	–	–	–	–	–	(628)	–	(628)
Total comprehensive income for the year	–	–	–	–	–	(628)	72,411	71,783
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	(4,344)	–	–	–	–	–	(4,344)
Appropriation to reserve	–	–	–	–	7,481	–	(7,481)	–
	–	(4,344)	–	–	7,481	–	(7,481)	(4,344)
Balance at 31 December 2020	534	187,838	180,000	107,021	22,215	(696)	185,238	682,150

The notes on pages 76 to 123 form part of these financial statements.

	Attributable to equity shareholders of the Company							
	Share capital RMB'000 Note 22(b)	Share premium RMB'000 Note 22(d)	Other reserve RMB'000 Note 22(e)	Capital reserve RMB'000 Note 22(f)	Statutory reserve RMB'000 Note 22(g)	Exchange reserve RMB'000 Note 22(h)	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2021	534	187,838	180,000	107,021	22,215	(696)	185,238	682,150
Changes in equity for 2021:								
Profit for the year	–	–	–	–	–	–	98,097	98,097
Other comprehensive income for the year	–	–	–	–	–	233	–	233
Total comprehensive income for the year	–	–	–	–	–	233	98,097	98,330
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	(19,256)	–	–	–	–	–	(19,256)
Appropriation to reserve	–	–	–	–	9,909	–	(9,909)	–
	–	(19,256)	–	–	9,909	–	(9,909)	(19,256)
Balance at 31 December 2021	534	168,582	180,000	107,021	32,124	(463)	273,426	761,224

The notes on pages 76 to 123 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2021
(Expressed in RMB)

	Note	2021 RMB'000	2020 RMB'000
Operating activities			
Profit before taxation		**134,647**	84,837
Adjustments for:			
Depreciation expenses	6(c)	**42,351**	48,849
Net loss on disposal of property, plant and equipment	5	**5**	135
Finance costs	6(a)	**22,943**	20,281
Interest income	5	**(1,780)**	(2,496)
Changes in working capital:			
Decrease/(increase) in inventories		**44,288**	(97,657)
Increase in trade and bills receivables		**(36,615)**	(195,842)
Decrease/(increase) in prepayments, deposits and other receivables		**4,028**	(140,276)
(Decrease)/increase in trade and bills payables		**(72,473)**	242,481
Decrease in accrued expenses and other payables		**7,760**	1,130
Decrease/(Increase) in restricted bank deposits		**4,104**	(31,450)
Cash generated from/(used in) operations		**149,258**	(70,008)
Income tax paid	20(a)	**(27,738)**	(16,880)
Net cash generated from/(used in) operating activities		**121,520**	(86,888)
Investing activities			
Payments for purchase of property, plant and equipment		**(82,265)**	(23,823)
Proceeds from disposal of property, plant and equipment		**23**	77
Interest received		**1,780**	2,496
Net cash used in investing activities		**(80,462)**	(21,250)
Financing activities			
Proceeds from new bank and other loans	16(b)	**533,426**	568,149
Repayment of bank and other loans	16(b)	**(540,649)**	(386,768)
Capital element of lease rentals paid	16(b)	**(15,389)**	(6,663)
Interest element of lease rentals paid	16(b)	**(1,473)**	(1,155)
Net increase/(decrease) in amounts due to related parties	16(b)	**2,293**	(11,326)
Dividends paid to equity shareholders of the Company	16(b), 22(c)(ii)	**(19,256)**	(4,344)
Interest paid	16(b)	**(21,470)**	(19,126)
Net cash (used in)/generated from financing activities		**(62,518)**	138,767

The notes on pages 76 to 123 form part of these financial statements.

	Note	2021 RMB'000	2020 RMB'000
Net (decrease)/increase in cash and cash equivalents		**(21,460)**	30,629
Cash and cash equivalents at 1 January	16(a)	**158,495**	130,616
Effect of foreign exchange rate changes		**(1,917)**	(2,750)
Cash and cash equivalents at 31 December	16(a)	**135,118**	158,495

The notes on pages 76 to 123 form part of these financial statements.

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 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These 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"). Significant accounting policies adopted by the Group are disclosed below.

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 2021 comprise the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) 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:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *interest rate benchmark reform – phase 2*
- Amendments to IFRS 16, *COVID-19-related rent concessions beyond 30 June 2021*

The Group previously applied the practical expedient in IFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met (see Note 2(g)). One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

Other than the amendment to IFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(t)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives as follows:

	Estimated useful lives
Plant and buildings	35 years
Machinery and equipment	3–15 years
Motor vehicles and other equipment	3–5 years
Right-of-use assets	Over the term of the lease

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. Construction in progress is not depreciated until it is completed and ready for its intended use.

(f) Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs (see Note 2(t)), where applicable. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(e) and 2(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16, *Leases*. In such cases, the Group took advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables) and contract assets.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls for trade and other receivables and contract assets are discounted using the effective interest rate determined at initial recognition or an approximation thereof, where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held). The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and contract assets (Continued)

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(r)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Credit losses and impairment of assets (Continued)

(ii) Impairment of non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment, including right-of-use assets; and

- investment in a subsidiary in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(h)(i) and 2(h)(ii)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories and other contract costs

(i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process.

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the Group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventories, are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories and other contract costs (Continued)

(ii) Other contract costs (Continued)

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the Group expects to receive in exchange for the goods to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in Note 2(r).

(j) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(h)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(k)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

(k) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see Note 2(j)).

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method, and including an allowance for credit loss (see Note 2(h)(i)).

Insurance reimbursement is recognized and measured in accordance with Note 2(q).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note 2(h)(i).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(n) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see Note 2(t)).

(o) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods promised under the contract on a relative stand-alone selling price basis.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(h)(i)).

(iii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and consequently recognised in profit or loss on a systematic basis over the useful life of the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into RMB, the Group's presentation currency, at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(t) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of the same third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) the entity is controlled or jointly controlled by a person identified in (a).

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products, the nature of production processes, the type or class of customers, the methods used to distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The significant sources of estimation uncertainty and accounting judgement made by the management are as follows:

(a) Impairment losses for non-current assets

If circumstances indicate that the carrying amount of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of non-current assets as described in Note 2(h)(ii). When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the recoverable amount of the asset and could result in additional impairment charge or reversal of impairment in future periods.

(b) Expected credit loss for receivables

The credit loss allowances for trade and other receivables are based on assumptions about the expected loss rates. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional impairment charge to profit or loss.

(c) Depreciation

Property, plant and equipment are depreciated over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The management of the Group reviews the estimated useful lives and residual values, if any, of the property, plant and equipment regularly in order to determine the amount of depreciation expenses to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets and taking into account anticipated changes on how such assets are to be deployed. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(d) Determining the lease term

As explained in policy Note 2(g), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operations. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future periods.

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:

	2021 RMB'000	2020 RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cold-rolled hard steel coil	**100,400**	80,994
– Sales of hot-dipped unpainted galvanised steel products	**1,258,625**	965,399
– Sales of hot-dipped painted galvanised steel products	**676,384**	559,753
	2,035,409	1,606,146

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

The Group's customers with whom transactions have exceeded 10% of the Group's revenue are as below:

	2021 RMB'000	2020 RMB'000
Customer A	**253,996**	219,505
Customer B	**195,599***	163,488

* Transactions with this customer did not exceed 10% of the Group's revenue in the current year.

Details of concentration of credit risk arising from the Group's customers are set out in Note 23(a).

(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.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(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 years ended 31 December 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 years ended 31 December 2021 and 2020 is set out below:

	2021			
	Hard steel coil RMB'000	**Unpainted galvanised steel products RMB'000**	**Painted galvanised steel products RMB'000**	**Total RMB'000**
Revenue from external customers recognised at a point in time	**100,400**	**1,258,625**	**676,384**	**2,035,409**
Reportable segment gross profit	**6,137**	**111,256**	**116,808**	**234,201**

	2020			
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	80,994	965,399	559,753	1,606,146
Reportable segment gross profit	5,549	90,146	80,775	176,470

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(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.

	2021 RMB'000	2020 RMB'000
The People's Republic of China (the "PRC")	**1,847,275**	1,540,130
Thailand	**151,175**	52,387
South Korea	**36,959**	13,629
	2,035,409	1,606,146

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 (LOSS)/INCOME

	2021 RMB'000	2020 RMB'000
Interest income	**1,780**	2,496
Net foreign exchange loss	**(2,813)**	(3,171)
Government grants	**438**	1,134
Net loss on disposal of property, plant and equipment	**(5)**	(135)
Others	**329**	445
	(271)	769

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2021 RMB'000	2020 RMB'000
Interest expenses on bank and other loans	21,470	19,126
Interest expenses on lease liabilities	1,473	1,155
	22,943	20,281

No borrowing costs have been capitalised for the year ended 31 December 2021 (2020: RMB Nil).

(b) Staff costs

	2021 RMB'000	2020 RMB'000
Salaries, wages and other benefits	50,753	44,934
Contributions to defined contribution retirement plans	3,506	267
	54,259	45,201

The employees of the subsidiaries of the Group established in the PRC (other than Hong Kong) participate in defined contribution retirement benefit plans managed by the local government authorities. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (other than Hong Kong), from the above mentioned retirement plans 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.

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	2021 RMB'000	2020 RMB'000
Depreciation expenses: (Note 11)#		
– owned property, plant and equipment	**39,471**	47,025
– right-of-use assets	**2,880**	1,824
	42,351	48,849
Operating lease expenses relating to short-term leases	**1,309**	1,121
Auditors' remuneration:		
– audit services	**1,680**	1,600
Cost of inventories (Note 13(b))#	**1,801,208**	1,429,676

Cost of inventories includes RMB79,863,000 (2020: RMB80,254,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2021 RMB'000	2020 RMB'000
Current taxation (Note 20(a)):		
Provision of PRC Corporate Income Tax for the year	**36,353**	14,991
Under-provision in respect of prior years	**940**	478
	37,293	15,469
Provision of Hong Kong Profits Tax for the year	**280**	235
	37,573	15,704
Deferred taxation (Note 20(b)):		
Origination and reversal of temporary differences	**(1,638)**	(4,355)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	**615**	1,077
	(1,023)	(3,278)
	36,550	12,426

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

	2021 RMB'000	2020 RMB'000
Profit before taxation	**134,647**	84,837
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	**34,120**	21,882
Tax effect of non-deductible expenses	**1,630**	1,058
Tax concessions (Notes (ii), (iv) and (v))	**(8,136)**	(12,069)
Under-provision in respect of prior years	**940**	478
Effect on deferred tax balances at 1 January resulting from a change in tax rate (Note (iv))	**7,381**	–
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (vi))	**615**	1,077
Actual tax expense	**36,550**	12,426

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 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 year ended 31 December 2021 (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 did not qualify as a HNTE in 2021 and is subject to the tax rate of 25% for the year ended 31 December 2021 (2020: 15%). The management of the Group is uncertain whether the subsidiary can obtain the HNTE qualification in 2022 and onwards, and accordingly, remeasured the deferred tax balances at 1 January 2021 at the applicable tax rate of 25%.

(v) According to the relevant tax rules in the PRC, qualified research and development costs are allowed for bonus deduction for income tax purpose, i.e an additional 100% for the year ended 31 December 2021 (2020: 75%) of such costs could be utilised as additional deductible expenses.

(vi) A subsidiary of the Group established in the PRC intended to distribute RMB27,550,000 to its immediate holding company, KangLi (HK) Limited. Pursuant to the Sino-Hong Kong Double Tax Arrangement, the above dividend is subject to a PRC Withholding Tax rate of 10%. Accordingly, deferred tax liabilities of RMB2,755,000 have been recognised at 31 December 2021.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2021				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Mei Zefeng	–	348	–	–	348
Ms Liu Ping	100	676	–	11	787
Mr Zhang Zhihong	100	728	–	11	839
Ms Lu Xiaoyu	100	309	–	11	420
Mr Xu Chao	100	226	–	5	331
Independent non-executive directors					
Mr Lau Ying Kit (appointed on 20 Dec 2021)	6	–	–	–	6
Mr Li Yuen Fei Roger (resigned on 24 Jan 2022)	249	–	–	–	249
Mr Cao Baozhong	100	–	–	–	100
Mr Yang Guang	100	–	–	–	100
	855	2,287	–	38	3,180

	2020				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Mei Zefeng	–	325	–	–	325
Ms Liu Ping	107	688	–	1	796
Mr Zhang Zhihong	107	620	–	1	728
Ms Lu Xiaoyu	107	232	–	1	340
Mr Xu Chao	107	183	–	1	291
Independent non-executive directors					
Mr Li Yuen Fei Roger	268	–	–	–	268
Mr Cao Baozhong	107	–	–	–	107
Mr Yang Guang	107	–	–	–	107
	910	2,048	–	4	2,962

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, four (2020: four) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other one (2020: one) individual is as follows:

	2021 RMB'000	2020 RMB'000
Salaries and other emoluments	**395**	536
Retirement scheme contributions	**11**	16
	406	552

The emoluments of the individual who is not director and who is amongst the five highest paid individuals of the Group is within the following band:

	2021 Number of individual	2020 Number of individual
HK$Nil – HK$1,000,000	**1**	1

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2021 is calculated based on the profit attributable to the equity shareholders of the Company of RMB98,097,000 (2020: RMB72,411,000) and the weighted average of 606,252,000 (2020: 606,252,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2021 and 2020.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of the carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Right-of-use assets RMB'000	Total RMB'000
Cost:						
At 1 January 2020	112,852	716,165	24,644	6,136	38,074	897,871
Additions	1,358	3,761	2,932	15,772	24,215	48,038
Transfer in/(out)	2,831	7,972	–	(10,803)	–	–
Lease modification	–	–	–	–	(9,924)	(9,924)
Disposals	–	(1,061)	(3,015)	–	–	(4,076)
At 31 December 2020	117,041	726,837	24,561	11,105	52,365	931,909
Additions	25	1,909	5,364	94,745	267	102,310
Transfer in/(out)	1,452	4,306	479	(6,237)	–	–
Disposals	–	(427)	(114)	–	–	(541)
At 31 December 2021	118,518	732,625	30,290	99,613	52,632	1,033,678
Accumulated depreciation:						
At 1 January 2020	(32,625)	(542,566)	(15,670)	–	(1,694)	(592,555)
Charge for the year	(3,092)	(40,878)	(3,055)	–	(1,824)	(48,849)
Written back on disposals	–	1,008	2,856	–	–	3,864
At 31 December 2020	(35,717)	(582,436)	(15,869)	–	(3,518)	(637,540)
Charge for the year	(3,746)	(32,286)	(3,439)	–	(2,880)	(42,351)
Written back on disposals	–	406	107	–	–	513
At 31 December 2021	(39,463)	(614,316)	(19,201)	–	(6,398)	(679,378)
Carrying amount:						
At 31 December 2021	79,055	118,309	11,089	99,613	46,234	354,300
At 31 December 2020	81,324	144,401	8,692	11,105	48,847	294,369

(b) Certain of the Group's property, plant and equipment are pledged as collaterals for the Group's short-term bank and other loans. Further details are set out in Note 19.

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Right-of-use assets

(i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Land use rights	**45,375**	47,553
Office premises and warehouses	**859**	1,294
	46,234	48,847

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Depreciation expenses of right-of-use assets by class of underlying asset:		
– Land use rights	**2,177**	1,003
– Office premises and warehouses	**703**	821
	2,880	1,824
Interest expenses on lease liabilities (Note 6(a))	**1,473**	1,155
Operating lease expenses relating to short-term leases (Note 6(c))	**1,309**	1,121

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 16(c) and 21, respectively.

(Expressed in RMB unless otherwise indicated)

12 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiaries	Place and date of establishment/ incorporation	Particulars of registered/issued and paid up capital	Proportion of ownership interest			Principal activities
			The Group's effective interest	Held by the Company	Held by a subsidiary	
Jiangsu Jiangnan Precision Metal Material Co., Limited ("Jiangnan Precision") (Notes (i) and (ii)) 江蘇江南精密金屬材料有限公司	The PRC 8 August 2003	Registered capital of RMB370,000,000 and paid up capital of RMB351,418,500	100%	–	100%	Manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products
East Pacific Limited (Note (iii))	The British Virgin Islands 3 July 2017	United States Dollar ("US$") 1, 1 share of US$1	100%	100%	–	Investment holding
KangLi (HK) Limited (Note (iii))	Hong Kong 17 July 2017	10,000 shares	100%	–	100%	Investment holding and trading of steel products

Notes:

(i) The English translation of the name is for identification only. The official name of this entity is in Chinese.

(ii) This entity was registered as a limited liability company under the laws and regulations in the PRC.

(iii) These companies are limited liability companies incorporated outside of the PRC.

13 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Raw materials and consumables	**107,256**	208,901
Finished goods	**296,123**	224,268
	403,379	433,169
Less: write down of inventories	**(14,498)**	–
	388,881	433,169

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2021 RMB'000	2020 RMB'000
Carrying amounts of inventories sold	**1,786,710**	1,429,676
Write down of inventories	**14,498**	–
	1,801,208	1,429,676

14 TRADE AND BILLS RECEIVABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Trade receivables, net of loss allowance	**171,843**	174,215
Bills receivables (Note 14(c))	**550,075**	511,088
	721,918	685,303

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

The balance of bills receivables represent bank acceptance notes received from customers with maturity dates of less than six months.

14 TRADE AND BILLS RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 month	**106,795**	139,943
1 to 3 months	**64,911**	33,816
3 to 6 months	**72**	81
Over 6 months	**65**	375
	171,843	174,215

Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 23(a).

(b) At 31 December 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 31 December 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 RMB79,433,000 (2020: RMB96,789,000).

(c) At 31 December 2021, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB283,448,000 (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 RMB283,448,000 (2020: RMB286,706,000).

At 31 December 2021, bills receivables of the Group with carrying amount of RMB59,902,000 (2020: RMB52,161,000) were pledged as collaterals for bills issued by the Group (see Note 17).

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Advances to staff	1,453	1,169
Others	2,661	2,924
Financial assets measured at amortised cost	4,114	4,093
Prepayments and deposits:		
– Prepayments for purchase of raw materials	226,918	229,330
– Prepayments for utilities and other expenses	171	1,808
	227,089	231,138
	231,203	235,231

All of the prepayments, deposits and other receivables are expected to be recovered or recognised as expenses within one year.

16 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Cash at bank	215,684	243,274
Cash on hand	380	271
Cash at bank and on hand included in the consolidated statement of financial position	216,064	243,545
Less: restricted deposits (Note (i))	80,946	85,050
Cash and cash equivalents included in the consolidated cash flow statement	135,118	158,495

The Group's operations in the PRC (excluding Hong Kong) conducted its business in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC (excluding Hong Kong) is subject to the exchange restrictions imposed by the PRC government.

Note:

(i) Restricted deposits represent deposits placed at banks as collaterals for bills issued by the Group (see Note 17).

16 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Bank and other loans RMB'000 (Note 19)	Interest payable RMB'000	Dividends payable RMB'000	Amounts due to related parties RMB'000 (Note 18)	Lease liabilities RMB'000 (Note 21)	Total RMB'000
At 1 January 2021	511,150	–	–	311	44,879	556,340
Changes from financing cash flows:						
Proceeds from new bank and other loans	533,426	–	–	–	–	533,426
Repayment of bank and other loans	(540,649)	–	–	–	–	(540,649)
Capital element of lease rentals paid	–	–	–	–	(15,389)	(15,389)
Interest element of lease rentals paid	–	–	–	–	(1,473)	(1,473)
Net increase in amounts due to related parties	–	–	–	2,293	–	2,293
Dividends paid to equity shareholders of the Company	–	–	(19,256)	–	–	(19,256)
Interest paid	–	(21,470)	–	–	–	(21,470)
Total changes from financing cash flows	(7,223)	(21,470)	(19,256)	2,293	(16,862)	(62,518)
Other changes:						
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	267	267
Finance costs (Note 6(a))	–	21,470	–	–	1,473	22,943
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	–	19,256	–	–	19,256
Total other changes	–	21,470	19,256	–	1,740	42,466
At 31 December 2021	503,927	–	–	2,604	29,757	536,288

16 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank and other loans RMB'000 (Note 19)	Interest payable RMB'000	Dividends payable RMB'000	Amounts due to related parties RMB'000 (Note 18)	Lease liabilities RMB'000 (Note 21)	Total RMB'000
At 1 January 2020	329,769	–	–	11,637	38,110	379,516
Changes from financing cash flows:						
Proceeds from new bank and other loans	568,149	–	–	–	–	568,149
Repayment of bank and other loans	(386,768)	–	–	–	–	(386,768)
Capital element of lease rentals paid	–	–	–	–	(6,663)	(6,663)
Interest element of lease rentals paid	–	–	–	–	(1,155)	(1,155)
Net decrease in amounts due to related parties	–	–	–	(11,326)	–	(11,326)
Dividends paid to equity shareholders of the Company	–	–	(4,344)	–	–	(4,344)
Interest paid	–	(19,126)	–	–	–	(19,126)
Total changes from financing cash flows	181,381	(19,126)	(4,344)	(11,326)	(7,818)	138,767
Other changes:						
Increase in lease liabilities from entering into new leases during the year	–	–	–	–	23,356	23,356
Lease modification	–	–	–	–	(9,924)	(9,924)
Finance costs (Note 6(a))	–	19,126	–	–	1,155	20,281
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	–	4,344	–	–	4,344
Total other changes	–	19,126	4,344	–	14,587	38,057
At 31 December 2020	511,150	–	–	311	44,879	556,340

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2021 RMB'000	2020 RMB'000
Within operating cash flows – lease rentals paid	**1,309**	1,121
Within financing cash flows – lease rentals paid	**16,862**	7,818
	18,171	8,939

17 TRADE AND BILLS PAYABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Trade and bills payables:		
– Trade payables	**77,081**	87,949
– Bills payables	**424,186**	485,578
Financial liabilities measured at amortised cost	**501,267**	573,527
Contract liabilities:		
– Receipts in advance from customers	**14,491**	14,704
	515,758	588,231

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

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

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	**280,398**	293,393
Between 3 to 6 months	**215,257**	274,523
Over 6 months	**5,612**	5,611
	501,267	573,527

18 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Payables for construction of property, plant and equipment	**19,775**	–
Payables for other taxes	**11,002**	6,303
Payables for staff related costs	**6,284**	5,391
Amounts due to related parties (Note (i))	**2,604**	311
Others	**375**	354
Financial liabilities measured at amortised cost	**40,040**	12,359

All of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

Note (i): The amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

19 BANK AND OTHER LOANS

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

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment (Note)	**68,000**	68,000
– Secured by bills receivables	**12,715**	17,260
– Guaranteed by third parties	**30,000**	40,000
– Unsecured and unguaranteed	**167,000**	141,000
	277,715	266,260
Loans from other financial institutions:		
– Secured by bills receivables	**226,212**	244,890
	503,927	511,150

Note: At 31 December 2021, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB44,684,000 (2020: RMB57,053,000).

(b) At 31 December 2021, the banking facilities of the Group amounted to RMB629,000,000 (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 RMB483,625,000 at 31 December 2021 (2020: RMB496,950,000).

(c) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2021, none of the covenants relating to the bank loans had been breached (2020: None).

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

	2021 RMB'000	2020 RMB'000
At 1 January	**39,637**	40,813
Provision for the year (Note 7(a))	**37,573**	15,704
Income tax paid during the year	**(27,738)**	(16,880)
At 31 December	**49,472**	39,637

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Assets: Credit loss allowance RMB'000	Assets: Write down of inventories RMB'000	Assets: Depreciation and finance costs arising from capitalisation of leases RMB'000	Liabilities: Accelerated tax allowance for depreciation expenses RMB'000	Liabilities: Retained profits to be distributed RMB'000	Net RMB'000
At 1 January 2020	97	–	268	(15,791)	(1,063)	(16,489)
Credited/(charged) to the consolidated statement of profit or loss (Note 7(a))	40	–	161	4,154	(1,077)	3,278
At 31 December 2020 and 1 January 2021	**137**	**–**	**429**	**(11,637)**	**(2,140)**	**(13,211)**
Credited/(charged) to the consolidated statement of profit or loss (Note 7(a))	**288**	**3,624**	**576**	**(2,850)**	**(615)**	**1,023**
At 31 December 2021	**425**	**3,624**	**1,005**	**(14,487)**	**(2,755)**	**(12,188)**

(c) Deferred tax liabilities not recognised

At 31 December 2021, taxable temporary differences relating to the retained profits of the Group's subsidiary established in the PRC (excluding Hong Kong) amounted to RMB261,551,000 (2020: RMB197,820,000), where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were recognised as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

21 LEASE LIABILITIES

At 31 December 2021, the lease liabilities were repayable as follows:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 year		
– Amounts due to related parties	**–**	14,732
– Amounts due to third parties	**1,808**	1,946
	1,808	16,678
After 1 year but within 2 years	**1,561**	1,723
After 2 years but within 5 years	**3,774**	3,956
After 5 years	**22,614**	22,522
	27,949	28,201
	29,757	44,879

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity during the year are set out in the consolidated statement of changes in equity.

Details of the changes of the Company's individual components of equity are set out below:

	Share capital RMB'000 Note 22(b)	Share premium RMB'000 Note 22(d)	Exchange reserve RMB'000 Note 22(h)	Accumulated losses RMB'000	Total equity RMB'000
Balance at 1 January 2020	534	192,182	3,983	(9,164)	187,535
Changes in equity for 2020:					
Loss for the year	–	–	–	(3,514)	(3,514)
Other comprehensive income for the year	–	–	(5,993)	–	(5,993)
Total comprehensive income for the year	–	–	(5,993)	(3,514)	(9,507)
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	(4,344)	–	–	(4,344)
Balance at 31 December 2020 and 1 January 2021	534	187,838	(2,010)	(12,678)	173,684
Changes in equity for 2021:					
Loss for the year	–	–	–	(2,725)	(2,725)
Other comprehensive income for the year	–	–	294	–	294
Total comprehensive income for the year	–	–	294	(2,725)	(2,431)
Dividends approved in respect of the previous year (Note 22(c)(ii))	–	(19,256)	–	–	(19,256)
Balance at 31 December 2021	534	168,582	(1,716)	(15,403)	151,997

22 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Share capital

	2021		2020	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.001 each	**5,000,000**	**5,000**	5,000,000	5,000

	2021		2020	
	No. of shares	**RMB'000**	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	**606,252,000**	**534**	606,252,000	534

(c) Dividends

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

	2021 RMB'000	2020 RMB'000
Final dividend proposed after the end of the reporting period of HK$0.050 per ordinary share (2020: HK$0.038 per ordinary share)	**24,784**	19,256

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

	2021 RMB'000	2020 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.038 per ordinary share (2020: HK$0.008 per ordinary share)	**19,256**	4,344

22 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Share premium

The application of the share premium account is governed by Section 34 of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time.

(e) Other reserve

The balance of other reserve of the Group at 1 January 2019 represented the difference of the paid-in capital of Jiangnan Precision and the consideration paid by the Company, via a wholly-owned subsidiary, during a group reorganisation took place in preparation of the listing of the Company in 2018.

(f) Capital reserve

The balance of capital reserve represented contributions from equity holders into Jiangnan Precision in the form of debt exemption prior to the listing of the Company in 2018.

(g) Statutory reserve

In accordance with the relevant PRC laws and regulations, the Company's subsidiary established in Mainland China is required to transfer 10% of its net profit to the statutory reserve until the reserve balance reaches 50% of the subsidiary's registered capital. The transfer to this reserve must be made before distributions to equity holders. This reserve can be utilised in setting off accumulated losses or increase capital of the subsidiary and is non-distributable other than in liquidation.

(h) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(s).

(i) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivables is limited because the counterparties are banks and financial institutions with high credit standings, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 6.7% (2020: 6.4%) and 17.1% (2020: 16.6%) of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significant different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2021:

	At 31 December 2021		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.06%	134,498	(81)
Less than 1 month past due	4%	38,829	(1,553)
1 to 3 months past due	12%	14	(2)
3 to 6 months past due	20%	90	(18)
Over 6 months past due	40%	109	(43)
		173,540	(1,697)

	At 31 December 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.06%	162,289	(98)
Less than 1 month past due	4%	11,373	(455)
1 to 3 months past due	12%	738	(89)
3 to 6 months past due	20%	101	(20)
Over 6 months past due	40%	626	(250)
		175,127	(912)

Expected loss rates are based on actual loss experience over the recent past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

Movements in the loss allowance account in respect of trade receivables are as follows:

	2021 RMB'000	2020 RMB'000
Balance at 1 January	912	648
Impairment losses recognised during the year	785	264
Balance at 31 December	1,697	912

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest dates the Group can be required to pay:

	At 31 December 2021					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank and other loans	510,901	–	–	–	510,901	503,927
Trade and bills payables measured at amortised cost	501,267	–	–	–	501,267	501,267
Accrued expenses and other payables measured at amortised cost	40,040	–	–	–	40,040	40,040
Lease liabilities	2,016	1,735	4,735	45,417	53,903	29,757
	1,054,224	1,735	4,735	45,417	1,106,111	1,074,991

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

	At 31 December 2020					
	Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Bank and other loans	517,676	–	–	–	517,676	511,150
Trade and bills payables measured at amortised cost	573,527	–	–	–	573,527	573,527
Accrued expenses and other payables measured at amortised cost	12,359	–	–	–	12,359	12,359
Lease liabilities	16,759	1,882	4,778	46,635	70,054	44,879
	1,120,321	1,882	4,778	46,635	1,173,616	1,141,915

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing bank and other borrowings and lease liabilities. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively.

The following table, as reported to the management of the Group, details the interest rate risk profile of the Group's total borrowings at the end of the reporting period:

	At 31 December 2021		At 31 December 2020	
	Effective interest rate %	**RMB'000**	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Bank loans	**3.85% ~ 4.79%**	**277,715**	3.95% ~ 5.00%	266,260
– Loans from other financial institutions	**3.25% ~ 3.92%**	**226,212**	3.1% ~ 5.2%	244,890
– Lease liabilities	**4.90%**	**29,757**	4.90%	44,879
		533,684		556,029
Fixed rate borrowings as a percentage of total borrowings		**100%**		100%

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

The Group is exposed to currency risk primarily through sales which give rise to receivables and cash balances that are denominated in a currency other than the functional currency of the operations to which they relate. The currency gives rise to this risk are primarily US$ and HK$.

The Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rates at the year end date.

	Exposure to foreign currencies (expressed in RMB)			
	At 31 December 2021		At 31 December 2020	
	US$ RMB'000	**HK$ RMB'000**	US$ RMB'000	HK$ RMB'000
Cash at bank and on hand	**15,347**	**36,158**	17,601	37,081
Trade and bills receivables	**62,244**	**–**	31,508	–
Trade and bills payables	**(427)**	**–**	(16,666)	–
	77,164	**36,158**	32,443	37,081

The following table indicates the instantaneous change in the Group's profit after tax and retained profits that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HK$ and US$ would be materially unaffected by any changes in movement in value of US$ against other currencies.

	2021		2020	
	Increase/ decrease) in foreign exchange rates	**Increase/ (decrease) in profit after tax and retained profits RMB'000**	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
US$	**5%**	**2,919**	5%	1,374
	(5%)	**(2,919)**	(5%)	(1,374)
HK$	**5%**	**1,356**	5%	1,576
	(5%)	**(1,356)**	(5%)	(1,576)

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and retained profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2020.

(e) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31 December 2021 and 2020.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2021 not provided for in the consolidated financial statements were as follows:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Commitments in respect of property, plant and equipment		
– Contracted for	**61,504**	29,155
– Authorised but not contracted for	**–**	54,950
	61,504	84,105

The above commitments represent the Group's planned expansion of its production facilities which is expected to be completed in 2022.

25 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the balances disclosed elsewhere in these consolidated financial statements, the Group entered into the below related party transactions during the year.

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the directors of the Company as disclosed in Note 8 and certain of the highest paid employees of the Group as disclosed in Note 9, is as follows:

	2021 RMB'000	2020 RMB'000
Short-term employee benefits	**3,448**	3,064
Contributions to defined contribution retirement plans	**59**	4
	3,507	3,068

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Transactions with related parties

	2021 RMB'000	2020 RMB'000
Sales of scrap materials (Note (i))	**11,841**	10,258
Acquisition of land use rights	**–**	18,490
Operating lease expenses	**96**	96
Net increase/(decrease) in amounts due to related parties	**2,293**	(11,326)

Note:

(i) These scrap materials were sold to related parties at cost and accordingly, no gains or losses were recognised on these transactions by the Group.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of sales of scrap materials above constitute continuing connected transactions or connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section Connected Transactions and Continuing Connected Transactions of the Directors' Report.

The related party transactions in respect of operating lease expenses and advances from related parties above constitute continuing connected transactions and connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property and equipment		**263**	736
Interests in subsidiaries	12	**172,086**	172,086
		172,349	172,822
Current assets			
Prepayments and other receivables		**147**	152
Amounts due from subsidiaries		**1,336**	851
Cash at bank and on hand		**943**	621
		2,426	1,624
Current liabilities			
Amounts due to subsidiaries		**22,499**	–
Lease liabilities		**279**	488
Net current (liabilities)/assets		**(20,352)**	1,136
Total assets less current liabilities		**151,997**	173,958
Non-current liabilities			
Lease liabilities		**–**	274
NET ASSETS		**151,997**	173,684
CAPITAL AND RESERVES	22		
Share capital		**534**	534
Reserves		**151,463**	173,150
TOTAL EQUITY		**151,997**	173,684

Approved and authorised for issue by the board of directors on 25 March 2022.

Liu Ping	**Lu Xiaoyu**
Chairperson	*Director*

27 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

(a) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 22(c).

(b) Impacts from COVID-19 pandemic and heightened geopolitical tensions

The COVID-19 pandemic since early 2020 and the heightened geopolitical tensions arising from recent events continue to bring uncertainties to the Group's operating environment and may impact the Group's operations and financial position.

Despite of the gradual easing of the original COVID-19 pandemic in Mainland China, various travel restrictions and preventive measures are still in place to avoid wide-spread of the COVID-19 variants. In addition, the heightened geopolitical tensions arising from recent events across the globe brings additional uncertainties to world economies as these events developed. Accordingly, the Group continues to closely monitor these possible impacts have on the Group's businesses and keep contingency measures in place and under review. The directors of the Company confirm that these contingency measures include but not limited to reassessing the flexibility of the current mechanisms in determining the selling prices of hard steel coil, unpainted galvanised steel products and painted galvanised steel products in light of the fluctuation to the purchase prices and demand, reassessing the sustainability of existing suppliers and/or expanding the supplier base of hard steel coil, unpainted galvanised steel products and painted galvanised steel products in ensuring the adequate supply of hard steel coil, unpainted galvanised steel products and painted galvanised steel products at prices that align with market quotations, and 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 related preventive measures and heightened geopolitical tensions may impact the demand of the Group's hard steel coil, unpainted galvanised steel products and painted galvanised steel products which in turn may result in the decrease in sales of such products and/or impact the availabilities of hard steel coil, unpainted galvanised steel products and painted galvanised steel products which in turn may result in the increase in purchase prices of such products, and hence the profitability of the Group's operations and the potential impairment of the Group's property, plant and equipment in future periods.

28 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate holding company and ultimate controlling parties of the Company at 31 December 2021 to be Newrich Limited, which is incorporated in the British Virgin Islands, and Mr Mei Zefeng and Ms Liu Ping, respectively. Newrich Limited does not produce financial statements available for public use.

(Expressed in RMB unless otherwise indicated)

29 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2021

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and a new standard, IFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendment to IFRS 3, *Reference to the conceptual framework*	1 January 2022
Amendment to IAS 16, *Property, plant and equipment: Proceeds before Intended Use*	1 January 2022
Amendment to IAS 37, *Onerous contracts – cost of fulfilling a contract*	1 January 2022
Annual improvements to IFRSs 2018-2020 cycle	1 January 2022
Amendments to IAS 1, *Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8, *Definition of accounting estimates*	1 January 2023
Amendments to IAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Year ended 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,035,409**	1,606,146	1,495,630	1,548,276	1,497,537
Gross profit	**234,201**	176,470	99,525	130,760	161,478
Profit for the year	**98,097**	72,411	24,698	50,921	66,143

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**354,300**	294,369	305,316	343,519	377,361
Current assets	**1,558,066**	1,597,248	1,104,144	1,088,654	938,393
Total assets	**1,912,366**	1,891,617	1,409,460	1,432,173	1,315,754
Current liabilities	**1,111,005**	1,168,055	742,232	776,850	821,188
Non-current liabilities	**40,137**	41,412	52,517	56,060	78,106
Total liabilities	**1,151,142**	1,209,467	794,749	832,910	899,294
NET ASSETS	**761,224**	682,150	614,711	599,263	416,460
Total equity attributable to equity shareholders	**761,224**	682,150	614,711	599,263	416,460
TOTAL EQUITY	**761,224**	682,150	614,711	599,263	416,460