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KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06890)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of KangLi International Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022, together with the comparative figures for the corresponding period of the preceding financial year, as follows:

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Key financial information and performance ratios		
– Revenue	764,715	992,642
– Gross profit	34,401	124,581
– Gross profit margin	4.5%	12.6%
– (Loss)/profit for the period	(5,144)	64,394
– Net profit margin	N/A	6.5%
– (Loss)/earnings per share	(RMB0.01)	RMB0.11
	At	At
	30 June	31 December
	2022	2021
	(unaudited)	(audited)
Key performance ratios		
– Current ratio	1.3	1.4
– Gearing ratio	0.7	0.7

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2022

		Six months ended 30 June	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	764,715	992,642
Cost of sales		<u>(730,314)</u>	<u>(868,061)</u>
Gross profit		34,401	124,581
Other income	5	5,015	137
Selling expenses		(25,924)	(29,858)
Administrative expenses		(9,312)	(9,552)
Impairment loss on trade receivables		<u>(565)</u>	<u>(68)</u>
Profit from operations		3,615	85,240
Finance costs	6(a)	<u>(11,510)</u>	<u>(11,480)</u>
(Loss)/profit before taxation	6	(7,895)	73,760
Income tax	7	<u>2,751</u>	<u>(9,366)</u>
(Loss)/profit attributable to equity shareholders of the Company for the period		<u>(5,144)</u>	<u>64,394</u>
(Loss)/earnings per share			
Basic and diluted (<i>RMB</i>)	8	<u>(0.01)</u>	<u>0.11</u>

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

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
(Loss)/profit for the period	(5,144)	64,394
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss		
– Exchange differences on translation into presentation currency of the Group	<u>(292)</u>	<u>(67)</u>
Total comprehensive income attributable to equity shareholders of the Company for the period	<u>(5,436)</u>	<u>64,327</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

	<i>Note</i>	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Non-current assets			
Property, plant and equipment		359,773	354,300
Current assets			
Inventories		457,257	388,881
Trade and bills receivables	9	631,765	721,918
Prepayments, deposits and other receivables		182,170	231,203
Cash at bank and on hand		255,799	216,064
		<u>1,526,991</u>	<u>1,558,066</u>
Current liabilities			
Trade and bills payables	10	524,108	515,758
Accrued expenses and other payables		70,246	40,040
Bank and other loans	11	500,607	503,927
Lease liabilities		1,569	1,808
Current taxation		25,231	49,472
		<u>1,121,761</u>	<u>1,111,005</u>
Net current assets		<u>405,230</u>	<u>447,061</u>
Total assets less current liabilities		<u>765,003</u>	<u>801,361</u>
Non-current liabilities			
Lease liabilities		27,829	27,949
Deferred tax liabilities		6,170	12,188
		<u>33,999</u>	<u>40,137</u>
NET ASSETS		<u>731,004</u>	<u>761,224</u>
CAPITAL AND RESERVES			
Share capital		534	534
Reserves		730,470	760,690
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>731,004</u>	<u>761,224</u>

Notes:

1 CORPORATE INFORMATION

KangLi International Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 21 December 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 19 November 2018. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, Interim financial reporting, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 26 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2021 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The financial information relating to the financial year ended 31 December 2021 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to IAS 16, *Property, plant and equipment: Proceeds before intended use*
- Amendments to IAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract*

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products:		
– Sales of cold-rolled hard steel coil	38,768	47,385
– Sales of hot-dipped unpainted galvanised steel products	435,789	620,735
– Sales of hot-dipped painted galvanised steel products	290,158	324,522
	764,715	992,642

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

(b) Segment reporting

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

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

(i) Segment results, assets and liabilities

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2022 and 2021. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2022 and 2021 is set out below:

	Six months ended 30 June 2022			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	
Revenue from external customers recognised at a point in time	38,768	435,789	290,158	764,715
Reportable segment gross profit	995	12,265	21,141	34,401
	Six months ended 30 June 2021			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	
Revenue from external customers recognised at a point in time	47,385	620,735	324,522	992,642
Reportable segment gross profit	3,663	68,582	52,336	124,581

(c) Geographic information

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

	Six months ended 30 June	
	2022 RMB'000	2021 RMB'000
The People's Republic of China (the "PRC")	672,667	927,744
Thailand	84,116	58,056
Other countries	7,932	6,842
	764,715	992,642

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

5 OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	238	910
Net foreign exchange gain/(loss)	4,940	(908)
Government grants	390	27
Net loss on disposal of property, plant and equipment	(695)	(6)
Others	142	114
	<u>5,015</u>	<u>137</u>

6 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank and other loans	10,785	10,745
Interest on lease liabilities	725	735
	<u>11,510</u>	<u>11,480</u>

(b) Staff costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	25,160	23,242
Contributions to defined contribution retirement plan	2,017	1,503
	<u>27,177</u>	<u>24,745</u>

(c) Other items

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation and amortisation		
– owned property, plant and equipment	24,641	20,483
– right-of-use assets	1,428	1,421
Cost of inventories	730,314	868,061
	<u>756,383</u>	<u>890,965</u>

7 INCOME TAX

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current taxation		
PRC Corporate Income Tax:		
– Provision for the period	–	11,016
– Withholding tax in connection with the retained profit distributed by a subsidiary of the Group	5,446	–
– Over-provision in respect of prior years	(2,204)	(62)
	3,242	10,954
Hong Kong Profits Tax:		
– Provision for the period	25	129
	3,267	11,083
Deferred taxation		
Reversal and origination of temporary differences	(6,018)	(1,717)
	(2,751)	9,366

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 2021/22 onwards. The profits tax rate for the first Hong Kong Dollar (“HK\$”) 2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.
- (iii) The subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2022 (six months ended 30 June 2021: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“HNTTE”), which entitles the qualified enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was not qualified as a HNTTE and subject to the tax rate of 25% for the six months ended 30 June 2022.
- (v) For the six months ended 30 June 2022, a subsidiary of the Group distributed dividend amounting to RMB54,457,000 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, withholding tax amounting to RMB5,446,000 has been recognised as at 30 June 2022.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share for the six months ended 30 June 2022 is calculated based on the loss attributable to the equity shareholders of the Company of RMB5,144,000 (profit for six months ended 30 June 2021: RMB64,394,000) and the weighted average of 606,252,000 (six months ended 30 June 2021: 606,252,000) ordinary shares in issue during the interim period.

(b) Diluted (loss)/earnings per share

There was no difference between basic and diluted (loss)/earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2022 and 2021.

9 TRADE AND BILLS RECEIVABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade receivables, net of loss allowance	166,077	171,843
Bills receivables	465,688	550,075
	<u>631,765</u>	<u>721,918</u>

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

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

(a) Ageing analysis

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Less than 1 month	115,525	106,795
1 to 3 months	50,444	64,911
3 to 6 months	–	72
Over 6 months	108	65
	<u>166,077</u>	<u>171,843</u>

- (b) At 30 June 2022, the Group has discounted certain of the bank acceptance notes it received from customers at banks, and endorsed certain of the bank acceptance notes it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are of high credit standings and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 30 June 2022, 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 RMB52,413,000 (31 December 2021: RMB79,433,000).
- (c) At 30 June 2022, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB222,815,000 (31 December 2021: RMB283,448,000). 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 RMB222,815,000 (31 December 2021: RMB283,448,000).

At 30 June 2022, bills receivables of the Group with carrying amount of RMB67,766,000 (31 December 2021: RMB59,902,000) were pledged as collaterals for bills issued by the Group (see Note 10).

10 TRADE AND BILLS PAYABLES

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Trade and bills payables:		
– Trade payables	82,086	77,081
– Bills payables	422,299	424,186
	<u>504,385</u>	<u>501,267</u>
Contract liabilities:		
– Receipts in advance from customers	19,723	14,491
	<u>524,108</u>	<u>515,758</u>

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Within 3 months	247,373	280,398
Between 3 to 6 months	214,721	215,257
Over 6 months	62,014	5,612
	<u>524,108</u>	<u>501,267</u>

11 BANK AND OTHER LOANS

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment (<i>Note (i)</i>)	68,000	68,000
– Secured by bills receivables	5,922	12,715
– Guaranteed by third parties	30,000	30,000
– Unsecured and unguaranteed	195,000	167,000
	<u>298,922</u>	<u>277,715</u>
Loans from other financial institutions:		
– Secured by bills receivables	201,685	226,212
	<u>500,607</u>	<u>503,927</u>

Note:

- (i) At 30 June 2022, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB41,566,000 (31 December 2021: RMB44,684,000)
- (b) At 30 June 2022, the banking facilities of the Group amounted to RMB729,000,000 (31 December 2021: RMB629,000,000) 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 RMB492,700,000 at 30 June 2022 (31 December 2021: RMB483,625,000).

12 DIVIDENDS

(a) Dividends

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

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB Nil).

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

	Six months ended 30 June 2022 RMB'000	2021 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$0.050 per ordinary share (six months ended 30 June 2021: HK\$0.038 per ordinary share)	<u>24,784</u>	<u>19,256</u>

13 COMMITMENTS

Capital commitments outstanding at 30 June 2022 not provided for in the interim financial report:

	At 30 June 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Commitments in respect of property, plant and equipment:		
– Contracted for	<u>22,230</u>	<u>61,504</u>

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

14 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the six months ended 30 June 2022, the Group's revenue from its principal business amounted to approximately RMB764,715,000, a decrease of approximately RMB227,927,000 compared with that of the corresponding period in 2021.

For the six months ended 30 June 2022, the sales volume of our cold rolled steel products and galvanized steel products totalled 112,484 tonnes, representing a decrease of 35,327 tonnes or 23.9% compared with 147,811 tonnes for the corresponding period in 2021. In particular, the sales volume of our cold rolled steel products and galvanized steel products were 7,180 tonnes and 105,304 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 69,170 tonnes and 36,133 tonnes respectively, representing a decrease of 28,223 tonnes for unpainted galvanized steel products and 5,463 tonnes for painted galvanized steel products as compared with the corresponding period in 2021. The drop in the sales volume of unpainted galvanized steel products is the main reason for the substantial decrease in the Group's revenue from its principal business in the first half of the year.

The successive outbreaks of COVID-19 in different cities including Shanghai, Suzhou, Wuxi and Changzhou in early 2022, especially the outbreak in Shanghai, cast tremendous impacts on the economy to the peripheral regions as well as China as a whole.

Since COVID-19 came into existence, the home appliance market started to undergo exponential growth in the second half of year 2020, which trend extended to the first half of 2021. Such prematurity has resulted in the weakened demand at present days, with severe drop in the overall demand in the home appliance sector. In the first half of 2022, the drop in demand was remarkable across white goods, kitchen appliances, small appliances and so forth. Meanwhile, consumption further became weaker in face of the COVID-19 pandemic.

Under the drop in demand, the Group's production capacity was not utilized to the fullest possible extent, leading to a higher share of fixed costs and in turn an increase in production costs. This is also one of the main reasons for the drop of the Group's performance in the first half of 2022.

PROSPECTS

The Group's new production lines are gradually becoming operational and are expected to be ready for full use in the second half of the year. The new factories will be conducive to uplifting the production efficiency of our painted galvanized steel products and reducing production costs. The use of smart slitting and cutting production line and 3D smart storage will uplift the production efficiency of our galvanized steel plates and painted galvanized steel plates, enhance product quality and reduce production costs.

In view of the general economic downturn, the government also proactively launched policies to boost consumption, including subsidies for the purchase of automobiles and home appliances, relaxation of policies that restrict purchase of properties, lowering down-payment ratio for home purchases and so forth. The Group will adjust its sales strategies, seek to secure more sales orders, uplift production capacity, and lower our costs in general. With the formation of the Group's 5G data platform, we will further uplift our internal management level, build up our well-regulated and scientific management system, conduct more precise cost estimations using our data platform, and optimize our product structure.

FINANCIAL REVIEW

Financial Results

Revenue

Revenue of the Group is primarily generated from the sales of hard steel coil and hot-dip galvanized steel products. For the six months ended 30 June 2022, the total revenue of the Group amounted to approximately RMB764,715,000, representing a decrease of approximately 23.0% from approximately RMB992,642,000 for the six months ended 30 June 2021. The decrease in the Group's revenue was primarily attributable to the decrease in the sales volume of the Group's products. The overall sales volume for the six months ended 30 June 2022 was 112,484 tonnes, representing an decrease of 23.9% when compared to that in the same period in the previous year. The overall average selling price of our products for the current period recorded a slight increase of 1.2% when compared to that in the same period in the previous year.

An analysis of the Group's revenue, sales volume and average selling price by products in the six months ended 30 June 2022 and 2021 is as follows:

	Six months ended 30 June								
	2022			2021			Change		
	Revenue <i>RMB'000</i>	Sales volume <i>tonnes</i>	Average selling price <i>RMB/tonne</i>	Revenue <i>RMB'000</i>	Sales volume <i>tonnes</i>	Average selling price <i>RMB/tonne</i>	Revenue <i>%</i>	Sales volume <i>%</i>	Average selling price <i>%</i>
Cold rolled steel products									
Hard steel coil	38,768	7,180	5,399	47,385	8,822	5,371	(18.2)	(18.6)	0.5
Hot-dip galvanized steel products	725,974	105,304	6,894	945,257	138,989	6,801	(23.2)	(24.2)	1.4
– unpainted galvanized steel products	435,789	69,170	6,300	620,735	97,393	6,374	(29.8)	(29.0)	(1.2)
– painted galvanized steel products	290,158	36,133	8,030	324,522	41,596	7,802	(10.6)	(13.1)	2.9
Total	764,715	112,484	6,798	992,642	147,811	6,716	(23.0)	(23.9)	1.2

Gross profit and gross profit margin

For the six months ended 30 June 2022, gross profit of the Group amounted to approximately RMB34,401,000 (six months ended 30 June 2021: approximately RMB124,581,000). The overall gross profit margin decreased from 12.6% in 2021 to 4.5% in 2022. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in the six months ended 30 June 2022 and 2021 is as follows:

	Six months ended 30 June			
	2022		2021	
	Gross profit <i>RMB'000</i>	Gross profit margin <i>%</i>	Gross profit <i>RMB'000</i>	Gross profit margin <i>%</i>
Cold rolled steel products				
Hard steel coil	995	2.6	3,663	7.7%
Hot-dip galvanized steel products	33,406	4.6	120,918	12.8%
– unpainted galvanized steel products	12,265	2.8	68,582	11.0%
– painted galvanized steel products	21,141	7.3	52,336	16.1%
Total	34,401	4.5	124,581	12.6%

A decrease in the overall gross profit margin of the Group was mainly due to increase of average production costs of our products as a result of drop in sales and production volume. The Company will closely monitor the trend of market price of steel and strengthen its control on the production costs.

Other income

Other income of the Group amounted to approximately RMB5,015,000 for the six months ended 30 June 2022, representing an increase of RMB4,878,000 from approximately RMB137,000 in the corresponding period in 2021. The increase was mainly attributable to net foreign exchange gain during the current period.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from RMB29,858,000 in the six months ended 30 June 2021 to approximately RMB25,924,000 in the current period. The decrease was mainly due to the decrease in transportation expenses as a result of decrease in sales volume.

Administrative expenses

Administrative expenses of the Group for the six months ended 30 June 2022 amounted to approximately RMB9,312,000 which is comparable to that of approximately RMB9,552,000 in the corresponding period in 2021.

Finance costs

Finance costs of the Group for the six months ended 30 June 2022 amounted to approximately RMB11,510,000 which is comparable to that of approximately RMB11,480,000 in the corresponding period in 2021.

(Loss)/profit before taxation

The Group recorded a profit before taxation of approximately RMB73,760,000 in the six months ended 30 June 2021 while a loss before taxation of approximately RMB7,895,000 was recorded for the current period.

Income tax

The Group recorded an income tax expenses of approximately RMB9,366,000 for the six months ended 30 June 2021 while an income tax credit of approximately RMB2,751,000 was recognised for the current period. The tax credit for the current period were mainly due to reversal of over-provision of PRC Corporate Income tax in prior years and deferred taxation.

(Loss)/profit for the period

As a result of the foregoing, the Group recorded a loss of approximately RMB5,144,000 for the six months ended 30 June 2022 (profit for the six months ended 30 June 2021: approximately RMB64,394,000).

Liquidity and financial resources

As at 30 June 2022, the Group had cash at bank and on hand of approximately RMB255,799,000 (31 December 2021: approximately RMB216,064,000). As at 30 June 2022, the restricted bank deposits placed at banks as collaterals for bills issued by the Group amounted to approximately RMB73,358,000 in aggregate (31 December 2021: approximately RMB80,946,000). The Board will ensure sufficient liquidity at any time to meet its matured liabilities.

Net current asset

The Group recorded net current assets of approximately RMB405,230,000 as at 30 June 2022 (31 December 2021: approximately RMB447,061,000). The current ratio, calculated by dividing the current assets by current liabilities, was approximately 1.3 as at 30 June 2022 (31 December 2021: approximately 1.4).

Borrowings and pledge of assets

As at 30 June 2022, the Group had bank and other loans amounted to approximately RMB500,607,000 (31 December 2021: approximately RMB503,927,000), of which approximately RMB68,000,000 was secured by the Group's property, plant and equipment, and approximately RMB207,607,000 was secured by bills receivables. All borrowings 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, as at 30 June 2022 was approximately 0.7 (31 December 2021: approximately 0.7).

Capital structure

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

Contingent liabilities

As at 30 June 2022, the Group did not have any material contingent liabilities.

Financial risks

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

– Foreign currency risk

Most of the Group's businesses are settled in Renminbi. However, the Group's sales to overseas customers are settled in foreign currencies. For the first half of 2022, approximately 88.0% of the Group's revenue was settled in Renminbi and approximately 12.0% was settled in foreign currencies.

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

– Interest rate risk

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

– Credit risk

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2022, the Group had approximately 548 employees, including executive Directors. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical insurance, mandatory provident fund scheme, local municipal government retirement scheme and education subsidy to encourage continuous professional development of staff.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have material acquisitions and disposal of subsidiaries and associated companies for the six months ended 30 June 2022.

FUTURE PLANS FOR SIGNIFICANT INVESTMENTS AND CAPITAL ASSETS

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

INTERIM DIVIDEND

The Board of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2022.

SUBSEQUENT EVENTS AFTER 30 JUNE 2022

There were no major subsequent events since 30 June 2022 and up to the date of this announcement.

REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2022 has been reviewed by the Audit Committee of the Company. The Audit Committee was satisfied that the Group’s unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the current period and that adequate disclosures had been made.

USE OF NET PROCEEDS FROM LISTING

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

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

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

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

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

As at 30 June 2022, 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	Utilized during period from 1 January 2022 to 30 June 2022	Unutilized balance as at 30 June 2022	Intended timetable for use of the unutilized proceeds
	RMB'000	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)	(22,823)	6,500	By/before 31 December 2022
To expand the production capacity of the colour coating line	-	-	-	-	29,500	(20,650)	(2,950)	5,900	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)	(25,773)	12,400	

The unutilized balance of the net proceeds was placed with banks as at 30 June 2022.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board of the Company, throughout the six months ended 30 June 2022, the Company has complied with the code provisions set out in the Corporate Governance Code under Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

PURCHASE, SALES OR REDEMPTION OF THE COMPANY’S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2022. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company’s securities during the six months ended 30 June 2022.

MODEL CODE FOR DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ dealing in the securities of the Company. The Company has made specific enquiry of all Directors and confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

PUBLICATION OF INTERIM RESULTS AND DISPATCH OF INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange at (www.hkexnews.hk) and the Company at (www.jnppmm.com). The interim report for the six months ended 30 June 2022 containing all information required by the Listing Rules will be dispatched to the Company’s shareholders and available on the above websites in due course.

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

Hong Kong, 26 August 2022

As at the date of this announcement, the Board comprises five executive Directors, being Mr. Mei Zefeng, Ms. Liu Ping, Mr. Zhang Zhihong, Mr. Xu Chao and Ms. Lu Xiaoyu, and three independent non-executive Directors, being Mr. Lau Ying Kit, Mr. Yang Guang and Mr. Cao Cheng.