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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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

The board (the “Board”) of directors (the “Directors”) of KangLi International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020, together with the comparative figures for the previous financial year, as follows:

FINANCIAL PERFORMANCE HIGHLIGHTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Key financial information		
– Revenue	1,606,146	1,495,630
– Gross profit	176,470	99,525
– Profit for the year	72,411	24,698
– Earnings per share (<i>RMB</i>)	0.12	0.04
Key performance ratios		
– Gross profit margin	11.0%	6.7%
– Net profit margin	4.5%	1.7%
– Return on equity	10.6%	4.0%
– Current ratio	1.4	1.5
– Gearing ratio	0.7	0.6

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HKD0.038 per ordinary share for the year ended 31 December 2020, which is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2020
(Expressed in Renminbi (“RMB”))

	<i>Note</i>	2020 RMB’000	2019 RMB’000
Revenue	3	1,606,146	1,495,630
Cost of sales		<u>(1,429,676)</u>	<u>(1,396,105)</u>
Gross profit		176,470	99,525
Other income	4	769	5,069
Selling expenses		(52,567)	(42,288)
Administrative expenses		(19,290)	(17,185)
Impairment loss on trade receivables		<u>(264)</u>	<u>(224)</u>
Profit from operations		105,118	44,897
Finance costs	5(a)	<u>(20,281)</u>	<u>(21,428)</u>
Profit before taxation	5	84,837	23,469
Income tax	6	<u>(12,426)</u>	<u>1,229</u>
Profit attributable to equity shareholders of the Company for the year		<u>72,411</u>	<u>24,698</u>
Earnings per share			
Basic and diluted (<i>RMB</i>)	7	<u>0.12</u>	<u>0.04</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2020

(Expressed in RMB)

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year	72,411	24,698
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	<u>(628)</u>	<u>317</u>
Total comprehensive income attributable to equity shareholders of the Company for the year	<u>71,783</u>	<u>25,015</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2020

(Expressed in RMB)

		At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		294,369	305,316
		-----	-----
CURRENT ASSETS			
Inventories		433,169	335,512
Trade and bills receivables	8	685,303	489,461
Prepayments, deposits and other receivables		235,231	94,955
Cash at bank and on hand		243,545	184,216
		-----	-----
		1,597,248	1,104,144
		-----	-----
CURRENT LIABILITIES			
Trade and bills payables	9	588,231	345,750
Accrued expenses and other payables		12,359	23,818
Bank and other loans	10	511,150	329,769
Lease liabilities	11	16,678	2,082
Current taxation		39,637	40,813
		-----	-----
		1,168,055	742,232
		-----	-----
NET CURRENT ASSETS		429,193	361,912
		-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES		723,562	667,228
		-----	-----
NON-CURRENT LIABILITIES			
Lease liabilities	11	28,201	36,028
Deferred tax liabilities		13,211	16,489
		-----	-----
		41,412	52,517
		-----	-----
NET ASSETS		682,150	614,711
		-----	-----
CAPITAL AND RESERVES			
Share capital	12	534	534
Reserves		681,616	614,177
		-----	-----
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		682,150	614,711
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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. 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 2020 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.

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

(c) **Changes in accounting policies**

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

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, which provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying Covid-19-related rent concessions granted to the Group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020. None of the above 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.

3. 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 3(b).

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

	2020	2019
	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	80,994	89,391
– Sales of hot-dipped unpainted galvanised steel products	965,399	969,961
– Sales of hot-dipped painted galvanised steel products	559,753	436,278
	<u>1,606,146</u>	<u>1,495,630</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets are disclosed in Note 3(b) and Note 3(c) respectively.

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

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	219,505	243,391
Customer B	*	174,382
Customer C	163,488	*

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

(b) Segment reporting

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

- 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 years ended 31 December 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The Group's other operating income and expenses, such as other income, 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 2020 and 2019 is set out below:

	2020			Total <i>RMB'000</i>
	Hard steel coil <i>RMB'000</i>	Unpainted galvanised steel products <i>RMB'000</i>	Painted galvanised steel products <i>RMB'000</i>	
Revenue from external customers recognised at a point in time	<u>80,994</u>	<u>965,399</u>	<u>559,753</u>	<u>1,606,146</u>
Reportable segment gross profit	<u>5,549</u>	<u>90,146</u>	<u>80,775</u>	<u>176,470</u>
	2019			
	Hard steel coil <i>RMB'000</i>	Unpainted galvanised steel products <i>RMB'000</i>	Painted galvanised steel products <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers recognised at a point in time	<u>89,391</u>	<u>969,961</u>	<u>436,278</u>	<u>1,495,630</u>
Reportable segment gross profit	<u>3,865</u>	<u>45,635</u>	<u>50,025</u>	<u>99,525</u>

(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.

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The People's Republic of China (the "PRC")	1,540,130	1,429,311
Thailand	52,387	11,337
South Korea	13,629	54,982
	<u>1,606,146</u>	<u>1,495,630</u>

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.

4. OTHER INCOME

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest income	2,496	1,600
Net foreign exchange (loss)/gain	(3,171)	2,288
Government grants	1,134	1,526
Net loss on disposal of property, plant and equipment	(135)	(511)
Others	445	166
	<u>769</u>	<u>5,069</u>

5. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest expenses on bank and other loans	19,126	19,607
Interest expenses on lease liabilities	1,155	1,821
	<u>20,281</u>	<u>21,428</u>

No borrowing costs have been capitalised for the year ended 31 December 2020 (2019: RMBNil).

(b) Staff costs[#]

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Salaries, wages and other benefits	44,934	45,565
Contributions to defined contribution retirement plans	267	3,295
	<u>45,201</u>	<u>48,860</u>

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.

In 2020, in an effect to provide financial support to enterprises during the Covid-19 pandemic, the PRC government authorities have granted partial exemption on the Group’s contributions to the defined contribution retirement plans. The total exempted amount was RMB2,721,000 in 2020.

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

(c) **Other items**

	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
Depreciation [#]		
– owned property, plant and equipment	47,025	47,290
– right-of-use assets	1,824	1,694
Operating lease expenses relating to short-term leases	1,121	1,301
Auditors’ remuneration		
– audit services	1,600	1,670
Cost of inventories [#]	1,429,676	1,396,105

[#] Cost of inventories includes RMB80,254,000 (2019: RMB83,768,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6. INCOME TAX

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current taxation		
Provision of PRC Corporate Income Tax for the year	14,991	4,942
Under/(over)-provision in respect of prior years	478	(3,021)
	<u>15,469</u>	<u>1,921</u>
Provision of Hong Kong Profits Tax for the year	235	1,411
	<u>15,704</u>	<u>3,332</u>
Deferred taxation		
Origination and reversal of temporary differences	(4,355)	(4,561)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (<i>Note (vi)</i>)	1,077	–
	<u>(3,278)</u>	<u>(4,561)</u>
	<u>12,426</u>	<u>(1,229)</u>

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 2019/20 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 2020 (2019: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“HNTE”), which entitles the qualified enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was qualified as a HNTE and is entitled to the preferential tax rate of 15% for the years ended 31 December 2019 and 2020.
- (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 75% of such costs could be utilised as additional deductible expenses.
- (vi) A subsidiary of the Group established in the PRC intended to distribute RMB21,400,000 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, a deferred tax liability of RMB1,077,000 has been recognised at 31 December 2020.

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2020 is calculated based on the profit attributable to the equity shareholders of the Company of RMB72,411,000 (2019: RMB24,698,000) and the weighted average of 606,252,000 (2019: 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 2020 and 2019.

8. TRADE AND BILLS RECEIVABLES

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables, net of loss allowance	174,215	158,808
Bills receivables (<i>Note 8(c)</i>)	511,088	330,653
	<u>685,303</u>	<u>489,461</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 represent 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 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	139,943	118,969
1 to 3 months	33,816	18,999
3 to 6 months	81	20,680
Over 6 months	375	160
	<u>174,215</u>	<u>158,808</u>

- (b) At 31 December 2020, 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 2020, 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 RMB96,789,000 (2019: RMB261,382,000).
- (c) At 31 December 2020, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB286,706,000 (2019: RMB172,137,000). 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 RMB286,706,000 (2019: RMB172,137,000).

At 31 December 2020, bills receivables of the Group with carrying amount of RMB52,161,000 (2019: RMB4,000,000) were pledged as collaterals for bills issued by the Group (see Note 9).

9. TRADE AND BILLS PAYABLES

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Trade and bills payables:		
– Trade payables	87,949	80,721
– Bills payables	485,578	248,010
	<u>573,527</u>	<u>328,731</u>
Contract liabilities:		
– Receipts in advance from customers	14,704	17,019
	<u>588,231</u>	<u>345,750</u>

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

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 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	293,393	206,280
Between 3 to 6 months	274,523	112,278
Over 6 months	5,611	10,173
	<u>573,527</u>	<u>328,731</u>

10. BANK AND OTHER LOANS

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

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Bank loans:		
– Secured by the Group's property, plant and equipment (<i>Note</i>)	68,000	53,000
– Secured by bills receivables	17,260	34,342
– Guaranteed by third parties	40,000	40,000
– Unsecured and unguaranteed	141,000	107,000
	266,260	234,342
Loans from other financial institutions:		
– Secured by bills receivables	244,890	95,427
	511,150	329,769

Note: At 31 December 2020, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB57,053,000 (2019: RMB69,422,000).

- (b) At 31 December 2020, the banking facilities of the Group amounted to RMB625,000,000 (2019: RMB540,000,000) 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 RMB496,950,000 at 31 December 2020 (2019: RMB333,400,000).
- (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. At 31 December 2020, none of the covenants relating to the bank loans had been breached (2019: None).

11. LEASE LIABILITIES

At 31 December 2020, the lease liabilities were repayable as follows:

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 1 year		
– Amounts due to related parties	14,732	–
– Amounts due to third parties	<u>1,946</u>	<u>2,082</u>
	16,678	2,082
After 1 year but within 2 years	1,723	1,963
After 2 years but within 5 years	3,956	4,685
After 5 years	<u>22,522</u>	<u>29,380</u>
	<u>28,201</u>	<u>36,028</u>
	<u>44,879</u>	<u>38,110</u>

12. SHARE CAPITAL

	2020		2019	
	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.001 each	<u>5,000,000</u>	<u>5,000</u>	<u>5,000,000</u>	<u>5,000</u>
	2020		2019	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	<u>606,252,000</u>	<u>534</u>	<u>606,252,000</u>	<u>534</u>

13. DIVIDENDS

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend proposed after the end of the reporting period of HK\$0.038 per ordinary share (2019: HK\$0.008 per ordinary share)	<u>19,256</u>	<u>4,344</u>

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.008 per ordinary share (2019: HK\$0.018 per ordinary share)	<u>4,344</u>	<u>9,567</u>

14. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2020 not provided for in the consolidated financial statements were as follows:

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Commitments in respect of property, plant and equipment:		
– Contracted for	29,155	2,667
– Authorized but not contracted for	<u>54,950</u>	<u>–</u>
	<u>84,105</u>	<u>2,667</u>

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

15. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 13.

16. IMPACT FROM THE COVID-19 PANDEMIC

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading midstream galvanized steel products manufacturer in the home appliance sector in Jiangsu Province, the PRC. The Group 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 2020, the Group recorded a revenue amounting to approximately RMB1,606,146,000, an increase of 7.4% compared with that of the corresponding period in 2019.

For the year ended 31 December 2020, the sales volume of our cold rolled steel products and galvanized steel products totaled approximately 290,430 tonnes, representing an increase of 14,188 tonnes or approximately 5.1% as compared with 276,242 tonnes for the year ended 31 December 2019. During the review period, the sales volume of our cold rolled steel products and galvanized steel products were 18,545 tonnes and 271,885 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 186,455 tonnes and 85,430 tonnes respectively. The average selling price of our unpainted galvanized steel products increased despite a decrease in sales volume. The sales volume of our painted galvanized steel products increased from 65,684 tonnes in the year ended 31 December 2019 by 19,746 tonnes or approximately 30.1%. With stable sales volume for our unpainted galvanized steel products, the substantial growth in the sales volume of our painted galvanized steel products represented the major contributor to the increase in our overall sales volume during the period under review.

Year 2020 witnessed worldwide impact of COVID-19 Pandemic on production and livelihood. Benefiting from the effective measures of prevention and control imposed by the Chinese government, China was the first to resume normal production. Stable production capacity has brought about post-event bonus to the export of home appliances. Whilst sales of home appliances dropped in the domestic market, we managed to secure sufficient export sales orders. A number of technological enhancements were made, to raise production efficiency, minimize energy wastage in production processes, and lower production cost. Meanwhile, we adjusted our sales strategy by raising the average width of our sales orders, reducing narrow-materials orders, minimizing the price rise for width in our materials procurement and in turn lowering procurement costs. The multitude of factors contributed to the production volume and sales volume in 2020 which represented our record high levels since the establishment of the Company, while profit rose by a considerable extent.

PROSPECTS

Whilst COVID-19 Pandemic is bringing about negative impact on the global economy, China became the only major economy to deliver positive economic growth in 2020, benefiting from the effective prevention and control of the pandemic in the country. The worldwide spread of the pandemic has presented opportunities to various sectors of China. The short-term suppression of COVID-19 Pandemic on home appliances consumption comes in with the limited impact in the longer term. Under the trend of consumption upgrade and the impact of COVID-19 Pandemic, home appliances consumption will further pursue healthy, intelligent and high-end products. The gradual promotion and implementation of vaccination will, as we believe, further bring the pandemic under control and lead to the gradual recovery of the global economy.

The effective control over the spread of COVID-19 Pandemic will be favorable to the revived growth of the home appliance market in year 2021. It is anticipated that the market scale will reach RMB892.9 billion in 2021. It is estimated that the year-on-year growth of retail sales in China's electric appliance sector may reach 10.2% in 2021. The price rise of raw materials will also drive the substantial price rise of products. "The Opinion of the State Council of the Central Government Concerning the Full-Scale Promotion of the Revitalization of Rural Areas and the Expedition of the Modernization of Agriculture and Rural Villages" issued by the central government of China pointed to the promotion of rural gigabit broadband connectivity, construction of 5th generation mobile network (5G), expedition of the enhancement of three-tier rural logistics system, fostering the rural coverage of e-commerce, fostering the upgrader replacement of durable consumables by rural residents, and catering to the needs of consumption upgrade of rural residents. Year 2021 will be the first year of the Fourteenth Five-Year Plan of China, in which China's economy will enter a stage of high-quality development. According to the government report released on 5 March 2021, consumer price will go up by 3%, while bulk consumption of automobiles and home appliances will increase steadily in 2021. With a better economic condition, and the favorable policies available to the home appliances sector, we are fully confident of the future development of the Group. At the same time, we will expedite the progress of our capacity expansion, seeking to finish the installation and testing of new production lines by the end of 2021, thereby bringing new momentum to the future development of the Group.

FINANCIAL REVIEW

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 2020, the total revenue of the Group amounted to approximately RMB1,606,146,000, representing an increase of approximately 7.4% from approximately RMB1,495,630,000 for the year ended 31 December 2019. During the year, the sales volume of hard steel coil and unpainted galvanized steel products recorded a drop of approximately 11.0% and approximately 1.7% respectively when compared to the previous year, but the sales volume of painted galvanized steel products recorded a remarkable grow of approximately 30.1% which resulted an overall increase of approximately 5.1% in sales volume. The average selling price of different products recorded slight fluctuations in different directions whilst the overall average selling price recorded an increase of approximately 2.1% when compared to that in the previous year.

An analysis of the Group's revenue, sales volume and average selling price by products in 2020 and 2019 is as follows:

	Year ended 31 December						Change		
	2020			2019					
	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	80,994	18,545	4,367	89,391	20,843	4,289	-9.4%	-11.0%	1.8%
Hot-dip galvanized steel products	1,525,152	271,885	5,610	1,406,239	255,399	5,506	8.5%	6.5%	1.9%
– unpainted galvanized steel products	965,399	186,455	5,178	969,961	189,715	5,113	-0.5%	-1.7%	1.3%
– painted galvanized steel products	559,753	85,430	6,552	436,278	65,684	6,642	28.3%	30.1%	-1.4%
Total	<u>1,606,146</u>	<u>290,430</u>	<u>5,530</u>	<u>1,495,630</u>	<u>276,242</u>	<u>5,414</u>	<u>7.4%</u>	<u>5.1%</u>	<u>2.1%</u>

Gross profit and gross profit margin

For the year ended 31 December 2020, gross profit of the Group amounted to approximately RMB176,470,000 (2019: approximately RMB99,525,000). Overall gross profit margin increased from approximately 6.7% in 2019 to approximately 11.0% in 2020. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in 2020 and 2019 is as follows:

	Year ended 31 December					
	2020			2019		
	Gross profit <i>RMB'000</i>	Proportion %	Gross profit margin %	Gross profit <i>RMB'000</i>	Proportion %	Gross profit margin %
Cold rolled steel products						
Hard steel coil	5,549	3.1%	6.9%	3,865	3.9%	4.3%
Hot-dip galvanized steel products	170,921	96.9%	11.2%	95,660	96.1%	6.8%
– unpainted galvanized steel products	90,146	51.1%	9.3%	45,635	45.9%	4.7%
– painted galvanized steel products	80,775	45.8%	14.4%	50,025	50.2%	11.5%
Total	<u>176,470</u>	<u>100.0%</u>	<u>11.0%</u>	<u>99,525</u>	<u>100.0%</u>	<u>6.7%</u>

A increase in the overall gross profit margin of the Group was mainly the result of the increase in average selling price of hard steel coil and unpainted galvanized steel products during the current year and the adjustment of our product mix to increase the sales volume of painted galvanized steel products which have a higher gross profit margin.

Other income

Other income of the Group amounted to approximately RMB769,000 in 2020, representing a decrease of approximately RMB4,300,000 from approximately RMB5,069,000 in 2019. The decrease was mainly attributable to a net foreign exchange loss of approximately RMB3,171,000 recognized in current year while a net foreign exchange gain of approximately RMB2,288,000 was recognized in previous year.

Selling expenses

Selling and distribution expenses of the Group increased from approximately RMB42,288,000 in 2019 to approximately RMB52,567,000 in 2020. The increase was mainly due to the increase in transportation expenses as a result of increase in sales volume.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB17,185,000 in 2019 to approximately RMB19,290,000 in 2020. The increase was mainly due to the increase in consultancy services fee incurred during the year.

Finance costs

Finance costs of the Group incurred for 2019 and 2020 were approximately RMB21,428,000 and RMB20,281,000 respectively.

Profit before taxation

Profit before taxation of the Group increased from approximately RMB23,469,000 in 2019 to approximately RMB84,837,000 in 2020.

Income tax

Income tax of the Group changed from income tax credit of approximately RMB1,229,000 in 2019 to income tax expenses of approximately RMB12,426,000 in 2020. A subsidiary of the Company in the PRC was entitled to the preferential income tax rate of 15% from 2018 to 2020 and an additional tax deductible allowance on qualified research and development costs incurred as it obtained the status of HNTe from relevant tax authority at the end of 2018. The income tax credit in 2019 was attributable to the reversal of over-provision in previous years.

Profit for the year

As a result of the foregoing, profit for the year of the Group increased from approximately RMB24,698,000 in 2019 to approximately RMB72,411,000 in 2020. Net profit margin of the Group increased from approximately 1.7% in 2019 to approximately 4.5% in 2020. 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 2020, was approximately 10.6% (2019: approximately 4.0%).

Liquidity and financial resources

As at 31 December 2020, the Group had approximately RMB243,545,000 (2019: approximately RMB184,216,000) cash at bank and on hand. As at 31 December 2020, the restricted deposit placed at banks as collaterals for bills issued by the Group amounted to approximately RMB85,050,000 (2019: approximately RMB53,600,000), representing an increase of approximately 58.7%. The increase was attributable to the increase in the deposit for notes payable.

Net current assets

The Group recorded net current assets of approximately RMB429,193,000 as at 31 December 2020, representing an increase of approximately 18.6% as compared with approximately RMB361,912,000 as of 31 December 2019. The current ratio, calculated by dividing the current assets by current liabilities, was approximately 1.4 as of 31 December 2020 (2019: approximately 1.5). The net current assets and current ratio in 2020 and 2019 were comparable and remained healthy.

Borrowings and pledge of assets

As at 31 December 2020, the Group had bank and other borrowings amounting to approximately RMB511,150,000 (2019: approximately RMB329,769,000), of which approximately RMB68,000,000 was secured by the Group's property, plant and equipment and approximately RMB262,150,000 was secured by bills receivables. All borrowings shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total borrowings which include all interest-bearing loans and amounts due to related parties under accrued expenses and other payables by total equity of the Group, was approximately 0.7 and 0.6 as at 31 December 2020 and 2019 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 2020, 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 2020, approximately 95.9% of the Group's revenue was settled in RMB and approximately 4.1% 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 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had 484 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.

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 options 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 options (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 options, 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 options will be used to repay outstanding loans.

To accommodate the new production line, the Company originally intended to lease a piece of land in close proximity to its current production facility with a size of approximately 50 mu (equivalent to approximately 33,333.3 sq.m.), such that the new production facilities could continue to benefit from its strategic location in Changzhou City, Jiangsu Province and share the existing ancillary facilities with the current production facility to minimize the expansion and operating costs. As disclosed in the Prospectus, the Directors have identified two parcels of land which are in proximity to the Group's current production facilities and were then available for lease and manufacturing uses. However, pursuant to the latest communication with the People's Government of Hengshanqiao Town, Wujin District, Changzhou City (常州市武進區橫山人民政府), according to the latest master planning of Hengshanqiao Town, the two parcels of land would be reclassified by the government as agricultural use, and the two parcels of land would not be classified for industrial use, rendering it not fitting into the Group's expansion plan.

In view of the above and to enable the Group to better utilize its resources, the Company decided to reallocate RMB18,490,000 of the IPO Proceeds to acquire two adjacent land 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. Following the completion of the acquisitions of the land parcels, the Group shall continue to expand the production capacity and increase the production efficiency in the manner as described in the Prospectus with modification on the expected timeframe. For further details, please refer to the announcement of the Company dated 7 December 2020.

As at 31 December 2020, the Group had utilized the IPO Proceeds as set out in the table below:

	IPO Proceeds RMB'000	Utilized up to 31 December 2019 RMB'000	Revised allocation RMB'000	Utilized during the year ended 31 December 2020 RMB'000	Unutilized balance as at 31 December 2020 RMB'000	Intended timetable for use of the unutilized proceeds RMB'000
To expand the production capacity and increase the production efficiency	97,683	-	79,193	-	79,193	By/before 31 December 2021
To acquire lands to accommodate the new production line	-	-	18,490	(1,000)	17,490	By/before 30 June 2021
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)	97,683	(1,000)	96,683	

The unutilized balance of the net proceeds was placed with banks as at 31 December 2020. The lands acquisition consideration was fully paid in January 2021.

MODEL CODE FOR DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to 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 year ended 31 December 2020.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2020 and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year ended 31 December 2020.

COMPLIANCE WITH THE CODE ON 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 Listing Rules.

Throughout the year, 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.

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee of the Company comprised three INEDs, namely, Mr. Li Yuen Fai Roger (the chairman), Mr. Cao Baozhong and Mr. Yang Guang. The Audit Committee has reviewed the audited consolidated results of the Group for the year ended 31 December 2020 and discussed with the management the accounting principles and practices adopted by the Group, risk management and internal controls and financial reporting matters of the Group.

SCOPE OF WORK OF KPMG

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

ANNUAL GENERAL MEETING

The Annual General Meeting (“AGM”) of the Company will be held on Friday, 11 June 2021. The notice of AGM will be sent to shareholders in due course.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK\$0.038 per ordinary share for the year ended 31 December 2020 to the shareholders whose names appear on the register of members of the Company on Tuesday, 22 June 2021. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Wednesday, 14 July 2021.

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, 11 June 2021, the register of members of the Company will be closed from Tuesday, 8 June 2021 to Friday, 11 June 2021, 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, 7 June 2021.
- (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 Friday, 18 June 2021 to Tuesday, 22 June 2021, 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 Thursday, 17 June 2021.

PUBLICATION OF FINAL RESULTS AND DISPATCH OF ANNUAL REPORT

This final results announcement is published on the websites of the Stock Exchange at (www.hkexnews.hk) and the Company at (www.jnpmm.com). The 2020 annual report 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.

APPRECIATION

I herein would like to express sincere gratitude towards all of our Board members, the management and every employee for their hard work for our Group over the past year. I also would like to express my appreciation to all shareholders, partners and customers for their support and trust.

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

Hong Kong, 26 March 2021

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