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

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

ANNUAL REPORT 2018

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# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

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

### Independent Non-executive Directors

Mr. Li Yuen Fai Roger
Mr. Cao Baozhong
Mr. Yang Guang

## COMPANY SECRETARY

Mr. Chung Yau Tong

## AUDIT COMMITTEE

Mr. Li Yuen Fai Roger *(Chairman)*
Mr. Cao Baozhong
Mr. Yang Guang

## REMUNERATION COMMITTEE

Mr. Cao Baozhong *(Chairman)*
Mr. Li Yuen Fai Roger
Mr. Yang Guang
Mr. Zhang Zhihong

## NOMINATION COMMITTEE

Ms. Liu Ping *(Chairman)*
Mr. Li Yuen Fai Roger
Mr. Cao Baozhong
Mr. Yang Guang

## REGISTERED OFFICE

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

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

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

## PRINCIPLE PLACE OF BUSINESS IN HONG KONG

12th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

## AUDITORS

KPMG
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

## HONG KONG LEGAL ADVISER

P. C. Woo & Co.
12th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

## COMPLIANCE ADVISER

GF Capital (Hong Kong) Limited
29-30/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR

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

## BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## COMPANY WEBSITE

www.jnpmm.com

## LISTING INFORMATION

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

# CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of KangLi International Holdings Limited ("KangLi International Holdings" or the "Company") and its subsidiaries (collectively known as the "Group"), I am pleased to present the annual report for the year ended 31 December 2018 for shareholders' review.

The year 2018 represents a milestone for the development of KangLi International Holdings. This is the first annual report after listing on the Main Board of The Stock Exchange of Hong Kong Limited. Always remaining true to its original aspiration and mission, KangLi International Holdings has been result-oriented in effort to bring returns to all investors who put their trust on us.

As a private manufacturer of galvanized steel product in the home appliance sector, we are in a leading position in the galvanized steel market in the home appliance sector in the PRC by leveraging our complete product chain as well as our excellent product quality and ancillary services. Against the backdrop of economic stabilization of China's economy as a whole and moderate growth in the home appliance industry, we achieved solid results in 2018.

## REVIEW

In 2018, our total revenue increased by approximately RMB50,739,000 or 3.4% from approximately RMB1,497,537,000 in 2017 to approximately RMB1,548,276,000 in 2018, of which the revenue from the PRC market represented approximately 93.1% of the total revenue, the revenue from the Korea market represented approximately 6.1% of the total revenue and the remaining part from sales to other countries.

Our total sales volume of cold rolled steel products and galvanized steel products decreased by approximately 11,654 tonnes from approximately 286,940 tonnes in 2017 to approximately 275,286 tonnes in 2018.

In 2018, our gross profit decreased by approximately RMB30,718,000 or 19.0% from approximately RMB161,478,000 in 2017 to approximately RMB130,760,000 in 2018. Gross profit margin decreased from approximately 10.8% in 2017 to approximately 8.4% in 2018.

In order to maintain and increase product quality and ensure business stability, the Group adopted various measures and completed a series of facilities enhancement projects so as to raise production standard, improve product quality and control production cost. A wholly-owned subsidiary of the Group in the PRC formally obtained the Jiangsu Province High-tech Enterprise status in November 2018.

The Group strived to maintain a balance between efficiency and sustainable development. We believe that a favourable operating environment and good social and corporate governance are prerequisites for corporate development in the future, thus we proactively take part in social development on a regional scale.

## PROSPECT

The year 2019 is a crucial year for comprehensively building a moderately prosperous society. Jiangsu Province will strive to facilitate development of high quality by developing advanced manufacturing industry cluster and supporting the real economy on a large scale, in particular the development of private economy, to deepen supply-side structural reform by raising the standard of the industry chain and to increase openness by giving huge support to the development of foreign trade.

At the beginning of January 2019, the National Development and Reform Commission and other departments issued "the Implementation Plan on Further Optimizing Supply and Promoting Steady Growth of Consumption to Form a Strong Domestic Market (2019)" (《進一步優化供給推動消費平穩增長促進形成強大國內市場的實施方案(2019年)》) and related policies to promote the purchase of home appliances. This policy mainly covers 15 kinds of products such as home appliances and kitchen appliances (including refrigerators, washing machines, water heaters and microwave ovens). It will stimulate the demand for replacement and upgrading home appliances and further promote the use of green and high-tech intelligent home appliances.

The home appliances market is evolving towards a more high-end and more high-tech intelligent development. Going forward, the replacement and upgrading of home appliances such as refrigerators and washing machines will be a main driving force for the development of the Group.

In order to consolidate and further expand our market share, we will further strengthen our effort in market development, speed up the expansion plan of our production capability, further invest in maintenance and upgrading of our facilities as well as technological research and development to further improve the quality of our products. We will strive to consolidate and develop our business to bring long-term investment returns to all shareholders.

## 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 the Group over the past year. I also would like to express my appreciation to all shareholders, partners and customers for their support and trust.

**Liu Ping**
*Chairman*

Hong Kong, 22 March 2019

## 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 pickling rolls, cold-rolled steel, unpainted galvanized steel and painted galvanized steel products along the whole industry chain.

For the year ended 31 December 2018, the Group achieved a revenue amounting to RMB1,548,276,000, an increase of 3.4% compared with that of the corresponding period in 2017.

For the year ended 31 December 2018, the sales volume of our cold rolled steel products and galvanized steel products totalled 275,286 tonnes, representing a decrease of 11,654 tonnes or 4.1% compared with 286,940 tonnes for the year ended 31 December 2017. During the review period, the sales volume of our cold rolled steel products and galvanized steel products were 18,474 tonnes and 256,812 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 213,611 tonnes and 43,201 tonnes respectively. Despite a decrease in sales volume, the average selling price of our products for the year ended 31 December 2018 increased by approximately RMB405 per tonne compared with that for the year ended 31 December 2017. Therefore, the total revenue increased for the year ended 31 December 2018.

In order to maintain and increase product quality and ensure business stability, the Group adopted various measures and completed a series of facilities enhancement projects so as to raise production standard, improve product quality and control production cost. For the year ended 31 December 2018, the Group strengthened the effort in joint development of materials with raw material suppliers, which means to coordinate with raw material suppliers to jointly develop two types of raw materials of hot-rolled coils whose functions are more unique, which further boarden the scope of physical functions of steel products of different types. For painted galvanized steel products, 16 more colours were newly introduced for color coating, which enhances the Group's capability of developing the market of painted galvanized steel products.

A wholly-owned subsidiary of the Company in the PRC formally obtained the status of High-tech Enterprise effective for the calendar year 2018 to 2020 in November 2018. This status not only recognizes the Group's technology innovation and usage of advanced technology equipment, but also entitles that subsidiary to enjoy a preferential tax rate at the corporate income tax rate of 15%, which brings a positive impact to the Group's operating results.

## FINANCIAL REVIEW

A comparison of the financial results of the Group in 2018 and 2017 is set out as follows.

### Financial Performance Highlights

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Key financial information | | |
| – Revenue | **1,548,276** | 1,497,537 |
| – Gross profit | **130,760** | 161,478 |
| – Profit for the year | **50,921** | 66,143 |
| – Earnings per share (RMB) | **0.11** | 0.15 |
| Key performance ratios | | |
| – Gross profit margin | **8.4%** | 10.8% |
| – Net profit margin | **3.3%** | 4.4% |
| – Return on equity | **8.5%** | 15.9% |
| – Current ratio | **1.4** | 1.1 |
| – Gearing ratio | **0.5** | 0.9 |

### Revenue

The total revenue of the Group amounted to RMB1,548,276,000 in 2018, representing an increase of 3.4% from RMB1,497,537,000 in 2017. In 2018, revenue of the Group was mainly generated from sales of hard steel coil and hot-dip galvanized steel products, with the sales amount of hard steel coil and galvanized steel products amounting to RMB84,478,000 (2017: RMB65,628,000) and RMB1,463,798,000 (2017: RMB1,431,909,000) respectively.

An analysis of the Group's revenue, sales volume and average selling price by products in 2018 and 2017 is as follows:

Year ended 31 December

| | 2018 | | | 2017 | | | Change | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Revenue**<br>***RMB'000*** | **Sales volume**<br>***tonnes*** | **Average selling price**<br>***RMB/tonne*** | Revenue<br>*RMB'000* | Sales volume<br>*tonnes* | Average selling price<br>*RMB/tonne* | Revenue<br>*%* | Sales volume<br>*%* | Average selling price<br>*%* |
| **Cold rolled steel products** | | | | | | | | | |
| Hard steel coil | **84,478** | **18,474** | **4,573** | 65,628 | 16,350 | 4,014 | 28.7% | 13.0% | 13.9% |
| Hot-dip galvanized steel products | **1,463,798** | **256,812** | **5,700** | 1,431,909 | 270,590 | 5,292 | 2.2% | –5.1% | 7.7% |
| – unpainted galvanized steel products | **1,154,561** | **213,611** | **5,405** | 1,184,024 | 229,840 | 5,152 | –2.5% | –7.1% | 4.9% |
| – painted galvanized steel products | **309,237** | **43,201** | **7,158** | 247,885 | 40,750 | 6,083 | 24.8% | 6.0% | 17.7% |
| Total | **1,548,276** | **275,286** | **5,624** | 1,497,537 | 286,940 | 5,219 | 3.4% | –4.1% | 7.8% |

## Gross profit and gross profit margin

Gross profit of the Group amounted to approximately RMB130,760,000 in 2018, representing a decrease of 19.0% from approximately RMB161,478,000 in 2017. Gross profit margin decreased from 10.8% in 2017 to 8.4% in 2018. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in 2018 and 2017 is as follows:

| | Year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | **Gross profit** *RMB'000* | **Proportion** % | **Gross profit margin** % | Gross profit *RMB'000* | Proportion % | Gross profit margin % |
| **Cold rolled steel products** | | | | | | |
| Hard steel coil | **5,294** | **4.0%** | **6.3%** | 5,408 | 3.3% | 8.2% |
| Hot-dip galvanized steel products | **125,466** | **96.0%** | **8.6%** | 156,070 | 96.7% | 10.9% |
| – unpainted galvanized steel products | **78,595** | **60.2%** | **6.8%** | 114,435 | 71.0% | 9.7% |
| – painted galvanized steel products | **46,871** | **35.8%** | **15.2%** | 41,635 | 25.7% | 16.8% |
| Total | **130,760** | **100.0%** | **8.4%** | 161,478 | 100.0% | 10.8% |

An overall decrease in the gross profit margin of the Group was mainly due to an increase in purchase costs of raw materials as a result of an increase in domestic steel price. As a result of the lagged-behind effect of the rise of market price of finished steel products, the change of such market price could not fully cover the fluctuation of raw material costs. The Company will strengthen the expectation management of market price of steel with a view to minimising such lagged-behind effect.

## Other income

Other income of the Group increased from RMB998,000 in 2017 to RMB4,094,000 in 2018. The increase was mainly attributable to an increase of government grants recognized from RMB305,000 in 2017 to RMB4,224,000 in 2018 which primarily include subsidies awarded in recognition of our (i) transformation and upgrade and (ii) invention and patents.

## Selling expenses

Selling expenses of the Group decreased from RMB44,829,000 in 2017 to RMB39,871,000 in 2018. The decrease was mainly due to a reduction in transportation expenses of the Group.

## Administrative expenses

Administrative expenses of the Group increased from RMB11,619,000 in 2017 to RMB15,824,000 in 2018. The increase was mainly due to increase in annual audit fee, consultancy services fee and staff costs.

## Finance costs

Finance costs of the Group increased from RMB12,734,000 in 2017 to RMB15,139,000 in 2018. The increase was mainly due to the average balance of bank and other loans during the year ended 31 December 2018 was higher than that in 2017.

## Profit before taxation

Profit before taxation of the Group decreased from RMB89,554,000 in 2017 to RMB44,655,000 in 2018.

## Income tax

A tax credit of RMB6,266,000 was recorded in 2018, while a tax expense of RMB23,411,000 was recorded in 2017, due to the effect on deferred tax as a result of an operating subsidiary of the Company obtaining the status of High-tech Enterprise in November 2018 with applicable tax rate of 15%.

## Profit for the year

Profit for the year of the Group decreased from RMB66,143,000 in 2017 to RMB50,921,000 in 2018. Net profit margin of the Group decreased from 4.4% in 2017 to 3.3% in 2018. 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 2018, was 8.5% (2017: 15.9%).

## Liquidity and financial resources

As of 31 December 2018, the Group had RMB154,625,000 (2017: RMB41,302,000) cash at bank and on hand, primarily due to an increase following the receipt of proceeds from the initial public offering. As of 31 December 2018, restricted bank deposits, bank balances and cash with original maturity over three months of the Group was approximately RMB9,685,000 in aggregate (2017: RMB12,520,000), representing a decrease of 22.6% compared to 31 December 2017. The Board will ensure sufficient liquidity at any time to meet its matured liabilities.

## Net current asset

The Group recorded net current assets of RMB311,804,000 as of 31 December 2018, representing an increase of 166.0% as compared with RMB117,205,000 as of 31 December 2017. The current ratio, calculated by dividing the current assets by current liabilities, was 1.4 as of 31 December 2018 (2017: 1.1). The increase in net current asset and current ratio was primarily due to the receipt of proceeds from the initial public offering of the Company.

## Borrowings and pledge of assets

As of 31 December 2018, the Group had bank and other loans amounting to RMB286,000,000 (2017: RMB306,989,000), of which RMB31,000,000 was secured by the Group's property, plant and equipment and land use right. All borrowings shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total borrowings which include all interest-bearing loans, amounts due to related parties and others under accrued expenses and other payables by total equity of the Group, was 0.5 and 0.9 at 31 December 2018 and 2017 respectively. The improvement in gearing ratio was mainly attributable to the increase in equity of the Group as a result of the initial public offering of the Company.

### 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 2018, 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. In 2018, approximately 93.1% of the Group's revenue was settled in Renminbi and approximately 6.9% 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 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.

### Subsequent events

The Group did not have any significant subsequent events.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save for the reorganisation for the purpose of listing of the Company, the Group did not have material acquisitions and disposal of subsidiaries and associated companies for the year ended 31 December 2018.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 483 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.

## DIRECTORS

### Executive Directors

**Mr. Mei Zefeng (梅澤鋒先生)**, aged 41, was appointed as our executive Director on 21 December 2017.

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

Mr. Mei has over 16 years of experience in the steel processing industry. He has been serving as the chairman of Jiangnan Industrial Group since January 2007. He has been appointed as the supervisor of Jiangnan Rural Commercial Bank (江南農村商業銀行), a company principally engages in banking and financial services since January 2010. Mr. Mei received numerous awards in the past including "Outstanding Entrepreneur" of Wujin District (武進區"優秀企業家"), Star Industrial Entrepreneur of Changzhou City (常州市工業明星企業家) and Top 10 Outstanding Young Entrepreneur of Jiangsu Province (江蘇省十大杰出青年企業家).

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

**Ms. Liu Ping (劉萍女士)**, aged 39, is our Chairman and was appointed as our executive Director on 21 December 2017. She is also the chairman of the Nomination Committee.

Ms. Liu graduated from Jinling Vocational Institute (金陵職業大學) (currently known as Jinling Institute of Technology (金陵科技學院)), the PRC in July 2001 with a diploma in Business Administration. She further obtained a bachelor's degree of Business (International Business) from Queensland University of Technology, Australia in 2004. Ms. Liu joined our Group in October 2005 and served as the chief financial officer of Jiangnan Precision from October 2005 to September 2009. She has been appointed as the president of Jiangnan Precision since October 2009. Ms. Liu has been primarily responsible for overall operations and management of our Group. Ms. Liu has over 13 years of experience in financial control and enterprise management.

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

**Mr. Zhang Zhihong (張志洪先生)**, aged 47, is our Chief Executive Officer and was appointed as our executive Director on 18 May 2018. He is also a member of the Remuneration Committee.

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

Mr. Zhang has over 19 years of experience in production and operations management in plastic and aluminium profile industry. Prior to joining our Group, Mr. Zhang worked as the factory manager in Jiangnan Chuangjia from January 1999 to June 2002. He also worked as the factory manager in Changzhou Huacai Construction Material Co., Limited (常州華彩建材有限公司), a company principally engages in production and sales of aluminium alloy profile, from July 2002 to April 2007.

**Ms. Lu Xiaoyu (陸小玉女士)**, aged 43, was appointed as our executive Director on 18 May 2018.

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

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

**Mr. Xu Chao (許潮先生)**, aged 31, was appointed as our executive Director of our Company on 18 May 2018.

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

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

## Independent non-executive Directors

**Mr. Li Yuen Fai Roger (李苑輝先生)**, aged 58, was appointed as our independent non-executive Director on 25 October 2018. Mr. Li is the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

Mr. Li completed his secondary education in 1980. Mr. Li is an associate member of The Hong Kong Institute of Certified Public Accountants, an associate of (i) the Taxation Institute of Hong Kong; (ii) The Society of Chinese Accountants & Auditor and (iii) The Association of Chartered Certified Accountants. Mr. Li has over 30 years' experience in corporate finance, accounting, auditing, corporate administration and business development. From July 1980 to June 1990, Mr. Li worked for Coopers & Lybrand, an international certified public accounting firm, and was responsible for the auditing and investigation assignments. In November 1991, Mr. Li joined as the partner of William Lui & Company. Since 2003, Mr. Li has been the sole practitioner for Roger Li & Co, a certified public accounting firm in Hong Kong.

Mr. Li was elected a committee member of the 9th and 10th Chinese People's Political Consultative Conference of Heilongjiang Province in the PRC. He was appointed as an economic advisor of the People's Government of Chengde City of Hebei Province in the PRC in 1997.

Since July 2016, Mr. Li has served as an independent non-executive director of 361 Degrees International Co., Limited (stock code: 1361), a company listed on the Main Board of the Stock Exchange.

**Mr. Cao Baozhong (曹寶忠先生)**, aged 77, was appointed as our independent non-executive Director on 25 October 2018. Mr. Cao is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

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

Mr. Cao has over 41 years of working experience, of which over 20 years focusing on administration and human resources management and his last position was the general manager of Nam Tung (Macau) Investment Ltd. (Bank of China Macau Branch) (澳門南通信托投資有限公司(中國銀行澳門分行)) until October 2002.

**Mr. Yang Guang (楊廣先生)**, aged 78, was appointed as our independent non-executive Director on 25 October 2018. Mr. Yang is also a member of the Audit Committee, Remuneration Committee and Nomination Committee.

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

Mr. Yang has over 21 years of experience in steel manufacturing and processing industry. From May 1979 to May 1991, Mr. Yang worked in Shanghai Baosteel Hot Rolled Factory (上海寶鋼熱軋廠) and his last position was factory manager. Then, Mr. Yang joined Baosteel Group Corporation (寶鋼集團) in May 1991. From May 1991 to February 1993, Mr. Yang worked as director of production department (生產部部長) for overall production management and from February 1993 to May 2001, he worked as deputy general commander of project headquarters (工程指揮部) for planning, design and importation of overseas technology and equipment.

## SENIOR MANAGEMENT

**Mr. Guo Zhongyi (過中毅先生)**, aged 46, has been serving as the vice president of production of Jiangnan Precision since August 2016. Mr. Guo is mainly responsible for production management of our Group.

Mr. Guo graduated from Changzhou Institute of Technology (常州工業技術學院), the PRC with a diploma in Machinery Manufacturing and Technology in July 1995. Mr. Guo joined our Group in August 2004 as the production officer of Jiangnan Precision from August 2004 to July 2007. He had served as the supervisor of galvanization workshop and the factory manager of production of Jiangnan Precision from August 2007 to July 2013 and from August 2013 to July 2016, respectively.

Mr. Guo has over 23 years of experience in the manufacturing industry, and prior to joining our Group he had extensive working experience in product design and development and production management.

**Mr. Wu Xiaojun (吳曉俊先生)**, aged 45, has been the vice president of sales and the supervisor of sales department of Jiangsu Province at Jiangnan Precision since August 2016. Mr. Wu is mainly responsible for sales strategies and management of our Group.

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

Mr. Wu has over 21 years of experience in the manufacturing industry, and prior to joining our Group, he had extensive working experience in production management, material procurement and product sales.

**Mr. Liu Yu (劉宇先生)**, aged 31, has been serving as the head of procurement of material of Jiangnan Precision since January 2017 and is mainly responsible for our Group's material procurement and management.

Mr. Liu graduated from Huaiyin Normal University (淮陰師範學院), the PRC with a undergraduate diploma of Social Work in June 2010. Mr. Liu joined our Group in September 2010 as a technician of Jiangnan Precision. He served as the sales representative of Jiangnan Precision from March 2011 to August 2016 and later served as a buyer at the material procurement department of Jiangnan Precision from August 2016 to December 2016.

He is the cousin of Ms. Liu and the cousin-in-law of Mr. Mei.

**Ms. Huang Yue (黃粵女士)**, aged 48, is the Financial Controller of our Group. Ms. Huang joined our Group in May 2018 and is primarily responsible for overseeing accounting and financial management of our Group. Ms. Huang is a member of The American Institute of Certified Public Accountants.

Ms. Huang graduated from Beijing Institute of Economics (北京經濟學院) (currently known as Capital University of Economics and Business (首都經濟貿易大學)), the PRC with an undergraduate certificate of Auditing in July 1993. She further obtained a master's degree of Business Administration from University of Maryland, the United States in May 2001.

Ms. Huang has over 23 years of experience in accounting, finance and enterprise risk management. She worked as an auditor in the audit and assurance department at Ernst & Young Huaming LLP (安永華明會計師事務所) from October 1993 to September 1997, responsible for conducting annual audit and initial public offering audit for multinational and state-owned enterprises. From September 2001 to February 2003, she worked as a business process analysis manager at AT&T Inc., responsible for analysis and management of prepayment products, retail distribution channel and supply chain. Ms. Huang worked in PricewaterhouseCoopers from 2003 to 2009, where she last held the position of associate director. From July 2009 to November 2017, she worked in PricewaterhouseCoopers as a partner in the consulting department, responsible for financial management consulting in the PRC.

# REPORT OF THE DIRECTORS

The board (the "Board") of directors (the "Directors") of KangLi International Holdings Limited (the "Company") is pleased to present this report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018.

## GLOBAL OFFERING

The Company was incorporated in the Cayman Islands on 21 December 2017 as an exempted company with limited liability under the laws of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange (stock code: 6890) on 19 November 2018 (the "Listing Date").

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in production and sales of (i) unpainted galvanized steel products to midstream steel product processors; and (ii) cold rolled steel products to home appliance manufacturers. The activities of the principal subsidiaries are set out in note 13 to the consolidated financial statements.

A review of the business of the Group during the year ended 31 December 2018, including an analysis of the Group's performance during the year using financial key performance indicators and an indication of likely future developments in the Group's business are set out under the sections headed "Chairman's Statement" and "Management Discussion and Analysis" in this annual report. This discussion forms part of this Directors' Report.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

### 1. Risk of uncertain demand for our products

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

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

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

### 2. Price fluctuation risk of raw materials

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

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

### 3. Risk of shortage of supply of raw materials

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

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

### 4. Risks of stringent environmental laws and regulations

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

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

## CORPORATE GOVERNANCE

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

## ENVIRONMENTAL POLICIES AND PERFORMANCE

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

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

## RELATIONSHIP WITH KEY PARTIES

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

### Customers

The Group has committed to provide high quality products and satisfactory services to each customer according to their requirements and production plan in order to maintain our brand competitiveness. The Group maintain close contact with the customers and had regular review the requirements of customers and feedbacks. Our top five customers have established business relationships with us for approximately 7 to 13 years.

### Suppliers and subcontractors

The Group has established stable and long-term relationship with its major hot rolled steel coils suppliers. We maintain an approved suppliers list for suppliers who have passed our assessment criteria and any supplier who fails to meet our requirements will be removed from the approved suppliers list. Majority of our top five suppliers have established business relationship with the Group for approximately 4 to 14 years.

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

### Employees

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

## USE OF NET PROCEEDS FROM LISTING

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

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

1. approximately 96.1% of the IPO Proceeds, other than the proceeds from over-allotment option (as described in the Prospectus), will be used for construction of the buildings, production facilities and equipment and installation of hot-dip galvanization line to expand the production capacity and increase the production efficiency;

2. approximately 3.9% of the IPO Proceeds, other than the proceeds from over-allotment option, will be used to repay a bank loan at an interest rate of 5.76% per annum which was due for repayment in December 2018; and

3. proceeds from the over-allotment option will be used to repay outstanding loans.

As at 31 December 2018, the Group had utilized the IPO Proceeds as set out in the table below:

| | IPO Proceeds RMB | Utilization in 2018 RMB | Unutilized amount RMB |
|---|---|---|---|
| To expand the production capacity and increase the production efficiency | 97,683,000 | – | 97,683,000 |
| To repay a bank loan due for repayment in December 2018 | 3,964,000 | 3,964,000 | – |
| To repay outstanding loans | 5,439,000 | 5,439,000 | – |
| Total | 107,086,000 | 9,403,000 | 97,683,000 |

There was no change in the intended use of net proceeds as previously disclosed in the Prospectus.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 and the Group's state of affairs as at that date are set out in the consolidated financial statements in this annual report.

The Company currently does not have a dividend policy or any pre-determined dividend distribution ratio. The Directors shall decide and recommend the amount of dividends based on our earnings, cash flows, financial conditions that the Directors deem relevant at such time.

The Board has resolved to recommend the payment of a final dividend of HK1.8 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on Tuesday, 18 June 2019. The final dividend, if approved by the shareholders of the Company at the forthcoming annual general meeting, will be payable on or around Tuesday, 9 July 2019.

## PROPERTY, PLANT AND EQUIPMENT

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

## BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2018 are set out in note 20 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 23(b) to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in note 23 to the consolidated financial statements and in the consolidated statement of changes in equity on page 63 of this annual report.

As of 31 December 2018, the Company has a share premium balance of RMB201,749,000 which shall be available for distribution to the shareholders.

## DONATIONS

During the year ended 31 December 2018, the charitable and other donations made by the Group amounted to HK$1,000,000.

## FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group for the past four financial years is set out on page 118 of this annual report.

## DIRECTORS

The Directors who held office during the year ended 31 December 2018 and up to the date of this annual report are:

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

Independent non-executive Directors:
Mr. Li Yuen Fai Roger
Mr. Cao Baozhong
Mr. Yang Guang

In accordance with Article 84(1) of the Articles of Association, Mr. Mei Zefeng, Ms. Liu Ping and Mr. Zhang Zhihong shall retire from office as Directors at the forthcoming Annual General Meeting. All of them will offer themselves for re-election.

## DIRECTORS AND SENIOR MANAGEMENT

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

## DIRECTOR'S SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service agreement with the Company on 25 October 2018 for an initial term of three years. Either party has the right to give not less than three months' written notice to terminate the agreement.

Each of the independent non-executive Directors has signed a letter of appointment with the Company on 25 October 2018 for an initial term of three years subject to re-election as and required under the Articles of Association. Either party has the right to give not less than three months' written notice to terminate the appointment.

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

## CHANGE IN INFORMATION OF THE DIRECTORS

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the change in information of the directors is as follows:

With effect from 1 January 2019, the remuneration for Mr. Mei Zefeng, an executive Director of the Company, was adjusted to HK$1 per annum.

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

## INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of its independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers that all independent non-executive Directors are independent in accordance with the guidelines set out in the Listing Rules.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" below, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2018.

## INDEMNITY AND DIRECTORS' LIABILITIES INSURANCE

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

## MANAGEMENT CONTRACTS

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

## DEED ON NON-COMPETITION

Each of Newrich Limited, Star Century Corporate Limited, Mr. Mei Zefeng and Ms. Liu Ping (collectively the "Controlling Shareholders") has entered into the deed of non-competition dated 25 October 2018 (the "Deed") in favour of the Company. Pursuant to the Deed, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to the Company that they shall not, and shall procure that none of their respective close associates and/or companies controlled by them (other than members of the Group) shall, directly or indirectly, either on their own account, in conjunction with, on behalf of, or through any person, firm or company, for profit or not, among other things, carry on, engage, invest, be interested or involved or engaged in, acquire or hold any rights or interest in any business of manufacturing and sales of cold rolled steel products in the PRC and such other parts of the world where any member of the Group may operate from time to time or other related business which the Group may undertake from time to time after Listing. For further details of the Deed, please refer to the prospectus of the Company dated 31 October 2018.

The Company has received confirmation from the Controlling Shareholders of their compliance with the terms of the Deed. The Controlling Shareholders declared that they had fully complied with the Deed for the year ended 31 December 2018. The independent non-executive Directors have reviewed on the confirmations from the Controlling Shareholders and concluded that the Deed has been complied with and has been effectively enforced.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, during the year ended 31 December 2018, neither our Controlling Shareholders nor any of our Directors and their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

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

At 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

## Interests in Shares and Underlying Shares of the Company

| Name of Director | Capacity/ Nature of Interest | Number of Shares (Note 1) | Approximate percentage of interest in the Company (Note 2) |
|---|---|---|---|
| Mr. Mei Zefeng (Note 3) | Interest of controlled corporation | 342,000,000 (L) | 56.41% |
| | Interest of spouse | 85,500,000 (L) | 14.10% |
| Ms. Liu Ping (Note 4) | Interest of controlled corporation | 85,500,000 (L) | 14.10% |
| | Interest of spouse | 342,000,000 (L) | 56.41% |

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2018.

(3) Mr. Mei Zefeng, being the sole director of Newrich Limited, is the sole shareholder of Newrich Limited which holds 342,000,000 shares. Therefore, Mr. Mei Zefeng is deemed to be interested in Newrich Limited's interest in the Company's shares pursuant to the SFO. In addition, Mr. Mei Zefeng is the husband of Ms. Liu Ping. Therefore, Mr. Mei Zefeng is deemed to be interested in Ms. Liu Ping's interest in the Company's shares pursuant to the SFO.

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

Save as disclosed above, as at 31 December 2018, so far as was known to the Directors and chief executives of the Company, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, to the best knowledge of the Directors, the following interests and short position of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

| Name of shareholder | Capacity/ Nature of Interest | Number of Shares (Note 1) | Approximate percentage of interest in the Company (Note 2) |
|---|---|---|---|
| Mr. Mei Zefeng | Interest of controlled corporation | 342,000,000 (L) | 56.41% |
| | Interest of spouse | 85,500,000 (L) | 14.10% |
| Ms. Liu Ping | Interest of controlled corporation | 85,500,000 (L) | 14.10% |
| | Interest of spouse | 342,000,000 (L) | 56.41% |
| Newrich Limited | Beneficial owner | 342,000,000 (L) | 56.41% |
| Star Century Corporate Limited | Beneficial owner | 85,500,000 (L) | 14.10% |
| 江蘇常州經濟開發管理委員會 (Note 3) | Interest of controlled corporation | 59,000,000 (L) | 9.73% |
| 常州東方新城建設有限公司 (Note 3) | Interest of controlled corporation | 59,000,000 (L) | 9.73% |
| 常州東方水務投資發展有限公司 (Note 3) | Interest of controlled corporation | 59,000,000 (L) | 9.73% |
| 香港東方控股實業有限公司 (Note 3) | Beneficial owner | 59,000,000 (L) | 9.73% |

Notes:

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

(2) The percentage is calculated based on the total number of issued shares as at 31 December 2018.

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

Save as disclosed above, as at 31 December 2018, the Directors have not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the Reporting Period and neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the Reporting Period.

## SHARE OPTIONS

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

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

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

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

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

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

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

The subscription price will be determined by the Board at the time the grant of the options is made and shall not be less than the highest of:

(i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date;

(ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and

(iii) the nominal value of a share.

The Share Option Scheme is valid and effective for a period of ten years commencing on 25 October 2018 (being the date of adoption of the Share Option Scheme).

As at 31 December 2018, there was no option outstanding, granted, cancelled, exercised or lapsed.

## CONNECTED TRANSACTIONS

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

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

On 25 October 2018, Jiangsu Jiangnan Precision Metal Material Co., Limited ("Jiangnan Precision") (being an indirectly wholly-owned subsidiary of the Company) entered into a framework sales agreement with Nankai Trading from the Listing Date to 31 December 2020. Nankai Trading is 60% owned by Mr. Mei Yiqiu ("Mr. Mei YQ"), a cousin of Mr. Mei Zefeng who is one of the Controlling Shareholders of the Company ("Framework Sales Agreement (I)").

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

The annual caps of the transaction amounts for the three financial years ending 31 December 2018, 2019 and 2020 are RMB12.2 million, RMB12.2 million and RMB12.2 million respectively. The total transaction amounts under the Framework Sales Agreement (I) for the year ended 31 December 2018 was approximately RMB12.0 million.

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

On 25 October 2018, Jiangnan Precision entered into a framework sales agreement with Nankai Metal which is 45% owned by Mr. Mei YQ ("Framework Sales Agreement (II)") from the Listing Date to 31 December 2020.

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

The annual caps of the transaction amounts for the three financial years ending 31 December 2018, 2019 and 2020 are RMB5.3 million, RMB5.3 million and RMB5.3 million respectively. The total transaction amounts under the Framework Sales Agreement (II) for the year ended 31 December 2018 was approximately RMB5.2 million.

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

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

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

## MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer and five largest customers for the year ended 31 December 2018 accounted for approximately 12.9% and 44.6% respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers for the year ended 31 December 2018 accounted for approximately 63.8% and 86.0% respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2018.

## EMOLUMENT POLICY AND DIRECTOR'S REMUNERATION

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

## RETIREMENT BENEFIT SCHEMES

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

## LITIGATION AND ARBITRATION

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

## PRE-EMPTIVE RIGHTS

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

## SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

There were no major subsequent events since the year end date and up to the date of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

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

## TAX RELIEF AND EXEMPTION

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

## ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on Monday, 10 June 2019. The notice of AGM will be sent to shareholders in due course.

## CLOSURE OF REGISTER OF MEMBERS

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

(a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Monday, 10 June 2019, the register of members of the Company will be closed from Tuesday, 4 June 2019 to Monday, 10 June 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 3 June 2019.

(b) For the purpose of determining shareholders who qualify for the final dividend, the register of members of the Company will be closed from Friday, 14 June 2019 to Tuesday, 18 June 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 13 June 2019.

## AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2018. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
**KangLi International Holdings Limited**

**Liu Ping**
*Chairman*

Hong Kong, 22 March 2019

The board of directors (the "Directors") of the Company (the "Board") is pleased to present this Corporate Governance Report or the period from 19 November 2018 (the "Listing Date") to 31 December 2018 (the "Reporting Period") in the Company's annual report for the year ended 31 December 2018.

## CORPORATE GOVERNANCE PRACTICES

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

Throughout the Reporting Period, 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, save and except for code provisions A.1.1 and C.3.3(e)(i). Details of the deviations are set out in this Corporate Governance Report.

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

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' dealing in the securities of the Company. The Company has made specific enquiry of all Directors and confirmed that they have fully complied with the required standard set out in the Model Code during the Reporting Period.

## BOARD OF DIRECTORS

### Board Composition

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

*Executive Directors*

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

*Independent non-executive Directors*

| | |
|---|---|
| Mr. Li Yuen Fai Roger | *(Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)* |
| Mr. Cao Baozhong | *(Chairman of Remuneration Committee and Member of Nomination Committee and Audit Committee)* |
| Mr. Yang Guang | *(Member of Remuneration Committee, Nomination Committee and Audit Committee)* |

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

The Company believes that the current Board composition is well-balanced and of a diverse mix appropriate for the business of the Company. The biographical information of the Directors and the relationship between the Directors are detailed under the section headed "Directors and Senior Management" of this annual report.

## Board Meetings

Under the code provision A.1.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. The Company was only listed on the Listing Date and only one Board meeting was held during the period from the Listing Date to 31 December 2018. All Directors attended that meeting. Going forward, the Company will fully comply with the requirement under the code provision A.1.1 of the CG Code to convene at least four regular meetings each year at approximately quarterly intervals to discuss the Group's business development, operations and financial performance.

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

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

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

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

## Chairman and Chief Executive Officer

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

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

During the period from the Listing Date to 31 December 2018, the Chairman had a meeting with the independent non-executive Directors without the presence of other Directors.

## Independent Non-executive Directors

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

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

## Appointment, Re-election and Removal of Directors

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

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

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

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

## Responsibilities of the Board and Management

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

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

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

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

## Continuous Professional Development

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

The Company encourages its directors to participate in continuous professional development courses and seminars organized by professional institutions or professional firms and read materials on relevant topics so that they can continuously update and further improve their relevant knowledge and skills.

Prior to the listing of the Company on the Stock Exchange, the Company organized a training session conducted by the legal adviser as to Hong Kong law, for the Directors on their duties, responsibilities and obligations under the Listing Rules. All Directors have attended the training session. During the Reporting Period, the Directors have been provided with reading materials relevant to corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances.

## BOARD COMMITTEES

The Board is supported by three committees with defined roles and responsibilities for each committee. Such committees are the remuneration committee (the "Remuneration Committee"), nomination committee (the "Nomination Committee") and audit committee (the "Audit Committee"). All committees were set up with a written terms of reference, which are in line with the relevant CG Code and available to shareholders on the Company's website, to deal clearly with its authority and duties. The committees will report their findings and decisions and make necessary recommendations to the Board. Minutes of the committee meetings will be drafted by the Company Secretary and circulated for the comment to the members of the committee within a reasonable time. The final version of the committee minutes are kept by the company secretary (the "Company Secretary") and such minutes are open for inspection by any Director. All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Details of each committee and their duties are as follows:

### Nomination Committee

The Nomination Committee comprises four members, including one executive Director, namely Ms. Liu Ping (chairman) and three independent non-executive Directors, namely Mr. Li Yuen Fai Roger, Mr. Cao Baozhong and Mr. Yang Guang.

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

No Nomination Committee meeting was held during the Reporting Period.

- *Nomination Policy for Directors*

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

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

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

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

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

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

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

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

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

- *Board Diversity Policy*

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

The Nomination Committee review the structure of the Board annually. The Board currently comprises 8 Directors of which 6 are male and 2 are female. The age of the Directors range from 31 to 78. The Board is comprised of renowned experts in the area of steel manufacturing and processing industry, finance, accounting, capital market, corporate governance and management. The nomination Committee considers that the Board is sufficiently diversified.

## Remuneration Committee

The Remuneration Committee comprises four members, including three independent non-executive Directors, namely Mr. Cao Baozhong (chairman), Mr. Li Yuen Fai Roger and Mr. Yang Guang, and one executive Director, namely Mr. Zhang Zhihong.

The Remuneration Committee is responsible for reviewing the contract terms of Directors and senior management of the Group; making recommendations to the Board regarding the Group's policies and structure for remuneration of Directors and senior management of the Group; making recommendations to the Board on the remuneration packages of individual Directors and senior management and reviewing and approving incentive schemes and performance-based remuneration. The terms of reference of the Remuneration Committee are in line with the CG Code and are accessible through the Company's website.

No Remuneration Committee meeting was held during the Reporting Period.

## Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Li Yuen Fai Roger (chairman), Mr. Cao Baozhong and Mr. Yang Guang.

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

Under the code provision C.3.3(e)(i) of the CG Code, Audit Committee must meet, at least twice a year, with the auditor and the Company has included this terms in the terms of reference of the Audit Committee. During the Reporting Period, the Audit Committee held only one meeting with the auditor and all members of the Audit Committee attended to discuss the audit scope of the financial statements for the year ended 31 December 2018. Going forward, the Audit Committee will fully comply with the requirement under the code provision C.3.3(e)(i) of the CG Code and its terms of reference.

## Corporate Governance Functions

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

## RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

The Board with the help of Audit Committee and the external consulting firm, have reviewed the effectiveness of the risk management and internal control systems of the Group for the Reporting Period, which covered all material controls, including financial, operational and compliance controls and risk management of the Group and deemed them effective and adequate, despite having identified areas of improvement.

# DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2018.

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

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

# AUDITOR'S REMUNERATION

The remuneration paid or payable to the Auditor in respect of audit services and non-audit services for the year ended 31 December 2018 was approximately as follows:

| Type of services | Fees paid/ payable RMB'000 |
|---|---|
| Audit services | 1,600 |
| Non-audit services related to the initial listing of the Company's shares | 2,100 |
| Total | 3,700 |

# COMPANY SECRETARY

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

# SHAREHOLDERS' RIGHTS

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

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

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

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

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

### Making Enquiries to the Board

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

### Contact Details

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

| | |
|---|---|
| Headquarters in the PRC: | Wuyi County, Hengshanqiao Town Wujin District, Changzhou City, Jiangsu Province, the PRC |
| Principal place of business in Hong Kong: | 12th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong |
| Fax: | (86) 519-88608896 |

## COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

## CHANGE IN CONSTITUTIONAL DOCUMENTS

The Memorandum and Articles of Association of the Company has been amended and restated with effect from the Listing Date and the Company has not made any changes to its Memorandum and Articles of Association during the Reporting Period.

## APPROACH

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

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

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

To implement sustainability strategies which apply to all levels of the Group, the top-down approach is adopted for the following sustainability strategies:

1. To achieve environmental sustainability

2. To respect human rights and social culture

3. To engage with stakeholders

4. To support our employees

5. To sustain local communities

# ABOUT THIS REPORT

The Group is pleased to present its Environmental, Social and Governance ("ESG") Report. The content contained herein focuses on providing an overview of the environmental, social and governance performance of our major operations in the PRC for the year ended 31 December 2018 (the "Reporting Year"). It helps us to keep a close eye on our current performance as well as the opportunities to improve our performance. The Reporting Year coincides with our financial year.

## Scope of the Report

This report has been prepared in accordance with the "Environmental, Social and Governance Reporting Guide" in Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The two ESG subject areas, namely Environmental and Social, are disclosed separately, highlighting the impacts of the operations of the Group in the PRC from 1 January 2018 to 31 December 2018.

For the Reporting Year, the material ESG issues are those which have or may have a significant impact on:

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

The data and information used in this report are referenced from our archived documents, records, statistics and research. Financial data is extracted from or calculated based on the Group's audited annual financial statements for the year ended 31 December 2018.

## Feedback

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

The Board of Directors is responsible for monitoring the Group's ESG-related risks over time, and it confirmed that appropriate and effective ESG risk management and internal control systems are in place.

# ABOUT KANGLI

## Our Business

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

## Our Vision

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

## Our Mission

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

## Board of Directors (the "Board")

The Board consists of:

| Executive Directors | Independent Non-Executive Directors |
|---|---|
| Ms. Liu Ping *(Chairman)* | Mr. Li Yuen Fai Roger |
| Mr. Zhang Zhihong | Mr. Cao Baozhong |
| Mr. Mei Zefeng | Mr. Yang Guang |
| Mr. Xu Chao | |
| Ms. Lu Xiaoyu | |

# OUR STAKEHOLDERS

KangLi actively strives to better understand and engage our stakeholders to ensure continuous improvements. We strongly believe that our stakeholders play a crucial role in sustaining the success of our business in the challenging market.

| Stakeholders | Probable issues of concern | Communication and responses |
|---|---|---|
| HKEx | Compliance with listing rules, timely and accurate announcements. | Meetings, training, roadshows, workshops, programs, website updates and announcements. |
| Government | Compliance with laws and regulations, prevention of tax evasion, and social welfare. | Interaction and visits, government inspections, tax returns and other information. |
| Suppliers | Payment schedule, stable demand. | Site visits. |

| Stakeholders | Probable issues of concern | Communication and responses |
|---|---|---|
| Shareholders/Investors | Corporate governance system, business strategies and performance, and investment returns. | Organizing and participating in seminars, interviews, shareholders' meetings, issue of financial reports and/or operation reports for investors, media and analysts. |
| Media & Public | Corporate governance, environmental protection, and human right. | Issue of newsletters on the Company's website. |
| Customers | Product quality, delivery times, reasonable prices, service value, labour protection and work safety. | Site visits, and after-sales services. |
| Employees | Rights and benefits, employee compensation, training and development, work hours, and working environment. | Union activities, trainings, interviews for employees, employee handbooks, internal memos, employee suggestion boxes. |
| Community | Community environment, employment and community development, and social welfare. | Community activities, employee voluntary activities, community welfare subsidies and charitable donations. |

## Section A: Environmental

The Group understands the high importance of environmental protection, in respect of which we promise not to sacrifice the environment in exchange of our business. In this respect, we strongly believe that a healthy environment is the basis of the Group's sustainable development. Thus, we will strive hard to integrate environmental sustainability into our business operations through various measures so as to decrease the related carbon emission level and the relevant intensity[1].

For the Reporting Year, there was no material non-compliance issue with relevant laws and regulations related to the environment. The Group will continue to be alert to any non-compliance behavior relating to critical environmental problems.

## Emissions

### Air Pollution Emission

As the Group's core business activity is manufacturing and processing galvanized steel products, there are production facilities such as fixed machines and equipment, driven by natural gas, involved in the manufacturing process. The fixed machines and equipment are mainly used for steel-galvanizing, colour-coating and hydrogen production. Also, mobile forklifts[2], driven by diesel oil, are required to transfer the materials within the plant. The material air pollutants emitted from the operations of the aforesaid machineries are mainly composed of sulphur oxides ("$SO_x$"), nitrogen oxides ("$NO_x$") and particulate matter ("PM"). During the Reporting Year, the total natural gas[3] and diesel oil consumptions were 10 million $m^3$ and 10,400 L respectively. The total air pollutants produced approximated to 1,900 kg, with an intensity of approximately 4 kg per employee. Nevertheless, all fixed and mobile machineries are under frequent checks and maintenance to ensure the energy efficiency.

| Combustion Sources | NO x (kg) | SO x (kg) | PM (kg) | Total (kg) |
|---|---:|---:|---:|---:|
| Fixed machines and equipment | 1,905.72 | 9.48 | N/A | 1,915.20 |
| Mobile forklifts | 7.19 | 0.17 | 0.53 | 7.89 |
| **Grand Total** | | | | **1,923.09** |

1 The different intensity figures in this report are calculated per employee, where were 483 employees as at 31 December 2018.
2 The Emission Factor of forklifts is assumed to be as same as the Class V2 private car using diesel oil.
3 The Emission Factor of natural gas is assumed to be as same as liquefied petroleum gas.

## Greenhouse Gases Emission

During the Reporting Year, the total greenhouse gases ("GHG") emission by the Group weighted approximately 72,000 tons. The key culprits of the GHG emission by the Group were the operations of stationary machineries and the electricity consumption. Alongside the aforementioned sources, there are also several indirect emission sources noted as the electricity used in fresh water and sewage processing, paper waste disposal at landfills and business air travels by our employees. In respect of our 483 employees, the GHG emission intensity was approximately 150 tons per employee.

As electricity consumption and the operation of fixed machines and equipment were the major sources of the Group's carbon emission, the Group will strengthen the energy-saving monitor measures by encouraging its staff to turn off idle appliances, with the use of energy-efficient appliances as well as the promotion of the use of natural lighting in the office and factory.

| GHG Emission Sources | GHG produced (ton) | % |
|---|---|---|
| Scope 1 – Direct emission from sources | | |
| – Fixed machines and equipment | 22,305.80 | 30.81 |
| – Mobile forklifts | 27.56 | 0.04 |
| Scope 2 – Emissions from electricity consumption | | |
| – Electricity consumption[4] | 49,541.76 | 68.44 |
| Scope 3 – Other indirect emission sources | | |
| – Paper waste disposal in landfills | 29.82 | 0.04 |
| – Electricity used for processing fresh water[5] | 80.25 | 0.11 |
| – Electricity used for processing sewage | 402.81 | 0.55 |
| – Business air travel by employees | 3.91 | 0.01 |
| **Grand total** | **72,391.91** | **100%** |
| **Intensity per employee** | **149.88** | |

## Waste Management

### *Hazardous Waste*

The hazardous waste was under good control by our well-developed waste management system. Hence, no significant amount of hazardous waste was disposed and emitted for the Reporting Year.

*Sewage*

Sewage is involved in the Group's daily production such as the processes of pickling and degreasing metals as well as the operation of levelling machines and rollers. The Group placed a huge emphasis on the reduction of sewage. Hence, we had a mature sewage-handling system in which a closed-circuit was built to purify sewage and turn it into clean water for reuse. Therefore, there was no significant amount of sewage disposed by the Group.

4 According to the《二氧化碳排放核算方法及數據核查表》published by the Ministry of Ecology and Environment, PRC on 15th May 2016, the power supply discharge coefficient of Jiangsu Province was set at 0.7498 kg/kWh.

5 The per unit electricity consumption for processing fresh water and sewage in the PRC was assumed to be at 0.575 and 0.2886 kWh, which were as same as the case in Hong Kong according to the 2016/2017 Annual Return of Water Supplies Department and Drainage Services Department, HKSAR.

*Acid Waste*

During the metal pickling process, there was acid waste produced. To counter that, the Group had installed a neutralization system by inputting alkali to neutralize the acid into neutral sewage. The Group strictly monitored the inputted alkali at a pH value of around 11 by frequent checks on the installed pH meter to ensure that the neutralization process was under good condition. After that, the sewage would be processed as aforementioned.

Alongside the internal neutralization system, the Group had also contracted with the qualified external waste management service providers to transfer the acid waste.

Therefore, there was no significant amount of acid waste disposed by the Group.

*Gaseous Waste*

By using different chemicals in the production process, there were several kinds of gaseous hydrocarbon produced. The Group installed a hydrocarbon removal system to manage the total amount of the hydrocarbon produced. The system analyzed the situation of the gaseous waste production by automatically sketching various kinds of data graphs. According to the data collected, the system operated to remove any of the hydrocarbon by undergoing chemical reaction, physical removal or incineration. Thus, the Group was not aware of a significant amount of gaseous waste emitted.

*Other Hazardous Waste*

Alongside the aforesaid wastes, there were some kinds of chemical wastes such as oil, emulsion and sludge. Similar to the management process of the acid waste, the Group had contracted with the qualified external waste management service providers to transfer the chemical waste. The Group would also report the transferred amount of the chemical waste to the government on a regular basis. During the Reporting Year, the transferred emulsion waste weighted to approximately 152.04 tons, with an intensity of approximately 0.3 tons per employee.

*Policies of Hazardous Waste Management*

With respect to the above hazardous wastes, the Group has implemented certain kinds of policies to manage the storage, handling and transfer of the wastes so as to avoid any leakage of chemicals and protect our employees. The hazardous wastes must:

1. be managed by authorized personnel;

2. be stored on a timely basis;

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

4. be recorded on the relevant register

***Non-Hazardous Waste***

The non-hazardous waste produced by the Group was mainly the inert waste, which was the remaining scrap of materials after metal processing, and paper waste. Most of the time, the remaining materials were re-sold to third parties as raw materials for further production. Hence, there was only paper waste to be disposed to the landfills. The total paper waste disposed by the Group during the Reporting Year weighted to approximately 6.21 tons, with an intensity of approximately 13 kg per employee.

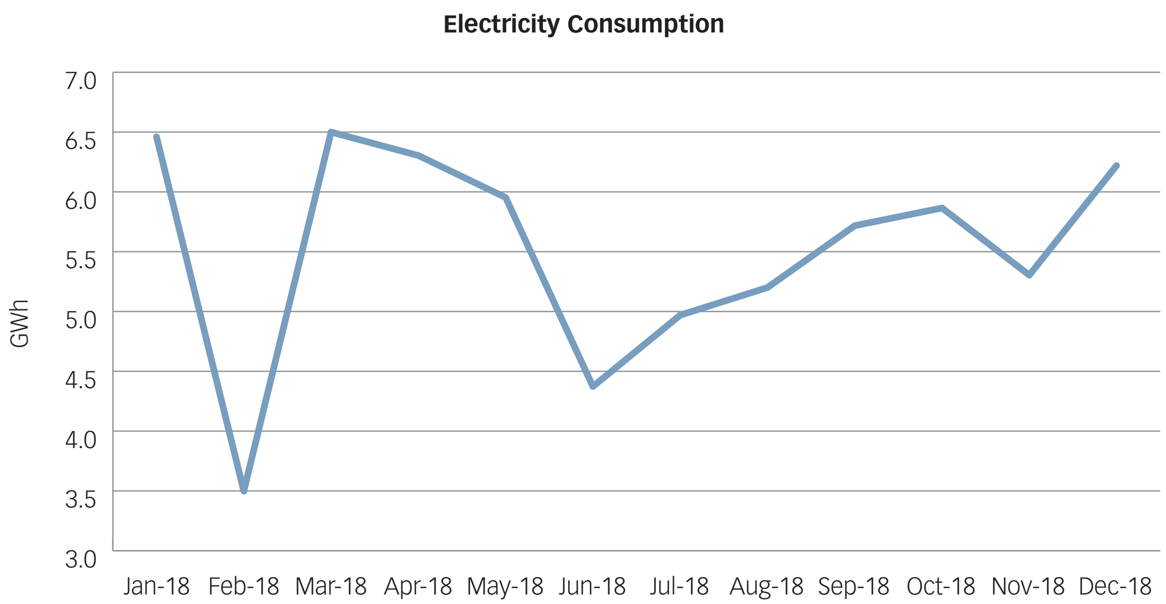
As logging is involved in the paper production process, it provokes both direct and indirect negative impacts on the environment. To advocate paperless work environment, we encourage our employees to use electronic documents and systems instead of printed documents. In addition, we have placed a collection box in the office to collect any kinds of paper-made products, including paper boxes, envelopes and reusable paper, for the recycling purpose.

## Use of Resources

The Group initiates to become an environmental-friendly and -sustainable enterprise. To reduce carbon emission and footprint, we have undertaken carbon reduction measures in our daily operations.

### Electricity Consumption

During the Reporting Year, the total electricity consumption amounted to approximately 66.07 GWh, with an intensity of approximately 137 MWh per employee.




The Group has emphasized the essentialness of energy conservation. The Group spurs every employee to switch off all idle appliances, and ensure that all electronic equipment is switched off after work hours. In the office and workshops, the Group has encouraged its staff to develop an energy-saving habit by using natural light whenever possible instead of electric lighting. In the foreseeable future, we promise to make more efforts on the topic of energy conservation to further reduce our carbon footprint.

### Water Consumption

As one of the most precious natural resources, water resource must be cherished by the Group as an essential target. During the Reporting Year, the Group consumed approximately 199,000 $m^3$ water in our business operations, in which the production process consumed the most of it, with an intensity of approximately 413 $m^3$ water per employee. As our water sources were from the governmental body as well as our own sewage purifying system, there was no water supply issue identified for the Reporting Year.

Effective use of water can significantly whittle down the indirect consumption of electricity during water processing. The Group has encouraged its staff to save and use less water by posting labels in the office.

### Packaging Materials

The Group's principal activities are producing and processing galvanized steel products as components of home appliances. Thus, there was no significant usage of packaging materials to be identified for the Reporting Year.

## The Environmental and Natural Resources

Alongside the aforementioned aspects, the Group has also developed wide range of written policies for its employees to comply with for the sake of minimizing the negative impact on the environment.

At the design stage, we require the relevant departments to consider minimizing potential pollution to the largest extent by simplifying the production process and using non-polluting raw materials for environmental sustainability. At the production stage, we require our production teams to record the actual usage of every kind of materials that will produce pollutants for making further decisions of pollutant-reduction. Also, we have strict guidelines regarding management and monitoring of any pollutants produced.

Besides the above measures, the Group has greening its workshops and production sites by planting trees and sod. The Group integrates various means of environmental protection in order to reduce pollution and enhance its employees' awareness of environmental protection in its business operations.

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

## Section B: Social – Employment and Labor Practices

## Employment

The Group places huge importance on its most treasurable assets – its employees. We value our employees' contribution and dedication to our business development. For the sake of the mutual interests for both, we aim to grow with our employees for the future boom of the Group.

The Group regards human resources as its valuable assets. The Group upholds the principles of fairness and is dedicated to maintaining equal opportunity of employment in relation to personnel matters, irrespective of age, gender, marital status, religion, disability, race or nationality.

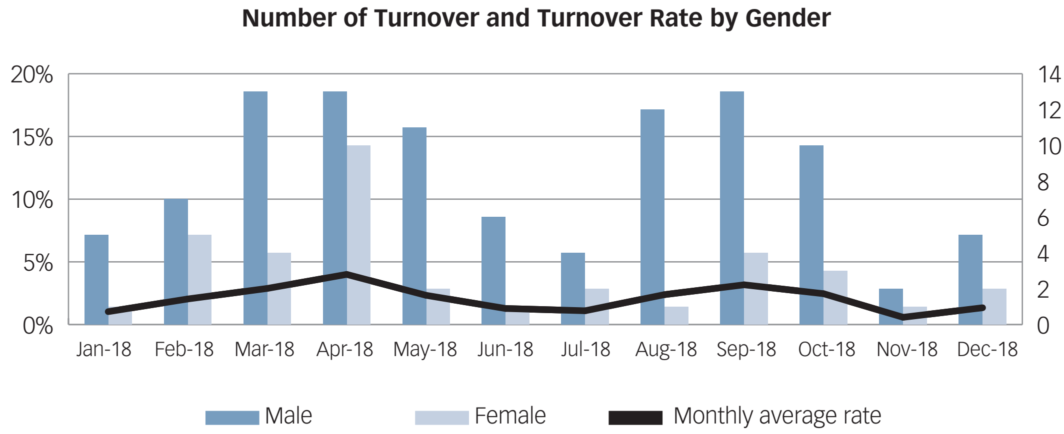
The Group has clear policies on employee compensation and dismissal, recruitment and promotion, working hours, rest periods and benefits and welfare. Any updates and amendments are communicated to employees via email or in company meeting.

### Employee Benefits

The Group has established a long-term favourable relationship with our employees. We offer competitive and attractive remuneration package, including on-the-job training, year-end bonus and performance-based incentive bonus, to our employees. The Group also provides Social Insurance and Housing Provident Fund to all its employees. We continuously assess our employees based on their performance for the decision of salary increase, bonus amount and promotion chance in order to keep them up to the Group's standard and reward them for their contributions.

Attractive number of leaves are provided to our employees to ensure that they can enjoy work-life balance. Also, based on the employment type, we offer our staff with three different working-hour system, namely, normal office hour system, two-shift system and three-shift system, in which all of the systems provide enough rest time for our employees. The Group regularly organizes different types of employee activities, such as annual dinner, football matches and staff picnic.

During the Reporting Year, the market competitive employee benefits help keep the monthly average turnover rate as low as approximately 2%.




The Group strictly abides with the Labour Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Regulations on Management of Housing Provident Fund and other relevant laws and regulations which cover all employment protection and benefits.

**Harmonious Workplace**

In order to diversify the background exposure of the Group, we hire people based on experience, expertise and values, regardless of race, colour, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation. We promote equal opportunities and diversity for all employees.

As at 31 December 2018, our employees' male-to-female ratio is 321:162, from different ethnics in China, for a total of 483 employees. We strive for a harmonious work environment without any kinds of discrimination as for our employees.

## Occupational Health and Safety

The Group is committed to safeguarding the safety, health and welfare of all employees, workers, and general public likely to be affected by the ordinary operations of the Group. To redeem our commitment, we have established certain safety policies. The policies state clearly the safety requirements and operating guidelines of every job position, the handling and reporting procedures of accidents, safety training and fire safety management.

The Group understands that preventive measures are way more important than reactive measures. Therefore, we have posted the safety requirements and guidelines in every workshop to alert our employees for every production node.

We also notice the preparedness for the potential accidents. Thus, there are enough fire equipment, such as fire extinguishers and fire hydrants, placed in both the office building and workshops. The fire equipment are under regular checks to ensure that they are in good condition. The Group also organizes fire and emergency drill on a regular basis to help our employees be familiar with the treatment procedures of emergency accidents. Reports of the drills are reviewed for improvement. Safety training is also provided to our employees to ensure that they fully understand our safety policies and requirements, and protect them from getting any injuries.

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

1. 0 cases of serious injury or fatality;

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

3. the injury rate of thousand employees per year being less than or equal to 3%.

During the Reporting Year, there was only 11 cases of injury and no serious injury or fatal cases reported within the Group. In these cases, 213.5 days of working day were lost because we promise to provide sufficient days of sick leave due to work injury as for our employees. We will continue to strive for a safe and healthy work environment for our employees and workers.

## Development and Training

The Group underlines the indispensableness of employee improvement. The Group promises to provide sufficient and efficient training to its employees. We also focus on the ability requirements of each level of employees to ensure that our employees are grooming with the Company at the same time.

The Group offers different internal training and development to its employees to enhance their performance, professional skills and knowledge. We also welcome our employees to attend external training courses and assessments by providing subsidies and rewarding them for any professional certificates obtained. We have performance appraisal on a regular basis to assess our employees' skills and knowledge. If any of the employees lag behind, additional training with assessments will be provided to keep our employees on track to maintain the work quality. With satisfactory performance review results, the Group also offers performance-based bonus and salary increase to its employees for rewarding their contributions.

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

During the Reporting Year, our employees received a total of 112 days of training, including professional skill training, leadership skill training and safety training.

## Labor Standards

The Group strictly abides by the relevant laws and regulations with regard to child labour, minimum wage specified by the government, and Social Insurance and Housing Provident Fund scheme. We are delighted to announce that we have not encountered major risks in human rights and employment matters so far. The Group guarantees that no employee is made to work against his/her will, or work under forced labour, or subject to coercion related to work. Recruitment of child labour is strictly prohibited. There was no employee recruited under the age of 18. Through the whistle-blowing mechanism, employees are able to voice out injustice they face.

## Section B: Social – Operating Practices

## Supply Chain Management

As a group to manufacture and process galvanized steel products, we recognize the essentialness of the supply chain management of our major inventories – hot rolled coils and zinc blocks. During the supplier selection process, we consider the qualification, reputation, product quality, quality consistency and the ability to deliver on time among the suppliers. Only the suppliers with a pass result in the initial assessment can be added into our approved supplier list. As at 31 December 2018, we developed trustful long term relationship with 46 approved suppliers, supplying both raw materials and auxiliary materials, in the PRC.

The Group conducts annual assessment of the approved suppliers to confirm that they are up to its required standards. We remove any of the suppliers with unsatisfying results from the approved supplier list to ensure that we produce the best quality of products using the high-quality raw materials.

The Group recognizes the importance of delivering high quality products on time. Hence, the inventories delivered from the suppliers play a very significant role in our supply chain. To prevent any risk of inventory shortage due to the not-on-time delivery by the suppliers, we have stocked up a safety inventory level at 10,000 to 20,000 tons of raw materials. Also, to minimize the risk of delivery delay due to natural disasters and weather issues, we intentionally diversified the major sources of supply to two separate major suppliers of hot rolled coils with one in eastern PRC and one in northern PRC. The Group did not encounter any inventory shortage during the Reporting Year by implementing the above risk avoidance measures.

Being the midstream of the supply chain, not only we focus on the upstream suppliers, but we also emphasize the development of long-term relationship with the downstream customers. As mentioned, on-time delivery is the fundamental key to manage the supply chain. To enhance the effectiveness and efficiency of delivering products to our customers, the Group has adopted both motor and water transport, depending on the travel distance. Two delivery means can significantly reduce the operating costs and enhance the efficiency of delivery.

## Product Responsibility

Since the Group specializes on the manufacturing and processing of galvanized steel products, we are committed to complying with and even exceeding applicable industrial and safety standards and quality control for the sake of safeguarding both the company reputation and the public interests.

### Quality Standards

The Group has set up a Quality Policy to commit ourselves for providing satisfactory services to settle customers' desire. The policy includes the inspection of purchased materials, inspection of production and dealing procedures of under-quality products. We have maintained our quality management system at all costs in respect of which we have been certified to comply with the requirements of ISO 9001: 2015 standard, which is applicable to the "Production of Cold Rolled Coils, Hot Zinc Coating Coils, and Color Coating Steel Coils".

### Internal Inspection

The Group conducts 4 stages of internal inspection starting from i) purchased materials, ii) and iii) work-in-progress products, and iv) finished goods. At every inspection stage, only the materials and products with a pass result can continue for further processing. For any unqualified materials and products, the quality inspectors consider to re-work or dispose according to the guidelines of the management procedures. Rectification reports are also prepared for every unqualified case discovered in order to analyze the reasons for the situation and raise recommendations for enhancement.

**Customers' Response**

The Group always treasures the customer relationship as an invaluable asset. We invite our customers to evaluate our performance regarding the product quality, product price and ability of on-time delivery. Most of our evaluation results are of satisfactory results. During the Reporting Year, there were 36 cases of complaints regarding product quality reported. We have recorded the complaints and dealing ways in detail for our further reference. As for the 36 reported cases, there were 15 cases of exchange, 19 cases of refund and 2 cases of exchange plus refund. We will continue to keep the well-established relationship with our customers.

**Relevant Laws and Regulations**

Actively notifying the compliance issues and inspecting among any deficiencies can prevent problems from escalating. Therefore, the Group keeps a close eye on the updates of relevant regulations and codes to revise its policies and operations accordingly to prevent any malpractice. Due to our preventive measures and stringent quality control system, there was no non-compliance issue reported during the Reporting Year. We will continue to strive for providing high quality product to our precious customers.

### Anti-corruption

The Group has established an "Anti-Bribery & Anti-Corruption Management Policy" to state clearly the definition of bribery and corruption, the Group's stance and the responsibilities of its employees. The Group severely prohibits its employees to accept any forms of gifts and benefits beyond proper permission. For every employee, they are required to sign a letter of commitment for performing duties with integrity in which no bribe, fraud or money laundering should be involved for their own benefits by harming the Group. During the Reporting Year, there was no concluded legal case regarding any forms of fraud brought against the Group or its employees.

The Group encourages its employees to report alleged malpractices or misconduct. We value and welcome our employees to report any suspected malpractices through various channels. Management take immediate action to investigate the issue. The Group promises to fully support the whistleblowers and the identity of the whistleblowers is also well protected.

### Section B: Social – Community Investment

The Group has been actively involved in the community investment. During the Reporting Year, we have donated HK$1,000,000 for the Stock Code Balloting for Charity Scheme. We intend to invest more resources into the voluntary section for the sake of positively contributing to the society.

## REGULATORY COMPLIANCE

The Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to emissions, employment, health and safety, labour standards, product responsibility and anti-corruption during the Reporting Year.

# ENVIRONMENTAL DATA

## Emissions Indicators

| | Year ended 31 December 2018 |
|---|---|
| **Air Emissions** | |
| Total air emissions | 1,923.09 kg |
| Air emission intensity | 3.98 kg per employee |
| | |
| $NO_x$ emission | |
| Fixed machines and equipment using natural gas | 1,905.72 kg |
| Mobile forklifts using diesel oil | 7.19 kg |
| | |
| $SO_x$ emission | |
| Fixed machines and equipment using natural gas | 9.48 kg |
| Mobile forklifts using diesel oil | 0.17 kg |
| | |
| PM emission | |
| Fixed machines and equipment using natural gas | – |
| Mobile forklifts using diesel oil | 0.53 kg |
| | |
| **Greenhouse Gas Emissions** | |
| Total greenhouse gas emissions | 72,391.92 tons |
| Greenhouse gas emission intensity | 149.88 tons per employee |
| | |
| $CO_2$ emission | |
| Fixed machines and equipment using natural gas | 22,305.50 tons |
| Mobile forklifts using diesel oil | 27.19 tons |
| Electricity consumption | 49,541.76 tons |
| Electricity used for processing fresh water | 80.25 tons |
| Electricity used for processing sewage | 402.81 tons |
| Paper waste disposal at landfills | 29.82 tons |
| Business air travel by employees | 3.91 tons |

| | Year ended 31 December 2018 |
|---|---|
| $CH_4$ emission | |
| Fixed machines and equipment using natural gas | **0.31 tons** |
| Mobile forklifts using diesel oil | **0.016 tons** |
| | |
| $N_2O$ emission | |
| Fixed machines and equipment using natural gas | **–** |
| Mobile forklifts using diesel oil | **0.36 tons** |
| | |
| **Hazardous waste produced** | |
| Total emulsion waste transferred | **152.04 tons** |
| Hazardous waste produced intensity | **0.315 tons per employee** |
| | |
| **Non-hazardous waste produced** | |
| Total non-hazardous waste produced (paper waste) | **6.21 tons** |
| Non-hazardous waste produced intensity | **13 kg per employee** |
| | |
| **Use of Resources Indicators** | |
| | |
| **Electricity consumption** | |
| Total electricity consumption | **66.07 GWh** |
| Electricity consumption intensity | **137 MWh per employee** |
| | |
| **Water Consumption** | |
| Total water consumption | **199,389 $m^3$** |
| Water consumption intensity | **412.81 $m^3$ per employee** |

# SOCIAL DATA

## Employment Indicators

| | Year ended 31 December 2018 |
|---|---|
| **Employment** | |
| Total number of employees | **483** |
| | |
| By Gender | |
| Male | **321** |
| Female | **162** |
| | |
| **Employment turnover** | |
| Total number of employee turnover | **137** |
| % of employee turnover (monthly average) | **2.17%** |
| | |
| By Gender (monthly average) | |
| Male | **2.40%** |
| Female | **1.71%** |
| | |
| **Health and Safety Indicators** | |
| | |
| Number of reported injuries | **11** |
| Number of lost days | **213.5 days** |
| | |
| **Development and Training Indicators** | |
| | |
| Total number of days of internal staff training | **112 days** |

| | Year ended 31 December 2018 |
|---|---|
| **Supply Chain Indicators** | |
| Total number of approved suppliers | 46 in PRC |
| **Product Responsibility Indicators** | |
| Total number of complaints received | |
| Exchange cases | 15 |
| Refund cases | 19 |
| Exchange and refund cases | 2 |
| **Anti-corruption Indicators** | |
| Number of conducted legal cases regarding corruption | – |
| **Community Indicators** | |
| **Community Investment** | |
| Corporate charitable donation | HK$1,000,000 |
| **Employee volunteering** | |
| Number of employee volunteers | – |
| Total number of service hours | – |

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

## OPINION

We have audited the consolidated financial statements of KangLi International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (CONTINUED)

### Valuation of inventories

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

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| At 31 December 2018, inventories of the Group comprised raw materials and consumables, and finished goods. The carrying amount of the Group's raw materials and finished goods at 31 December 2018 amounted to RMB341,151,000 which represented 23.8% of the Group's total assets.<br><br>The Group's inventories are valued at the lower of cost and net realisable value. The net realisable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's steel products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale.<br><br>The selling prices of the Group's steel products are mostly affected by the price volatility of raw materials, particularly if the market price of raw materials decline significantly after the reporting date, the net realisable value of the Group's raw materials and finished goods may be less than the cost.<br><br>We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realisable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias. | Our audit procedures to assess valuation of inventories included the following:<br><br>• obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over inventory management;<br><br>• obtaining an understanding of management's basis of estimating the net realisable value and the key judgement involved in estimating the future selling prices of steel products;<br><br>• evaluating the calculations made by management in arriving at the net realisable values of the inventories by assessing the reasonableness of the estimated selling price of the steel products with reference to the market price of raw materials and the accuracy of the costs of completion and the selling costs; and<br><br>• comparing the carrying values of finished goods, on a sample basis, to their selling prices as indicated in sales invoices subsequent to the reporting date to evaluate management's estimates of net realisable value. |

## KEY AUDIT MATTERS (CONTINUED)

### Loss allowance for trade receivables

*Refer to Note 15 to the consolidated financial statements and the accounting policies in Note 2(h)(i).*

**The Key Audit Matter**

At 31 December 2018, the Group's gross trade receivables totalled RMB154,957,000. Loss allowance of RMB424,000 was recorded.

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

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

**How the matter was addressed in our audit**

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

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

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

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

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**KPMG**
*Certified Public Accountants*

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
22 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018
(Expressed in Renminbi ("RMB"))

| | Note | **2018 RMB'000** | 2017 RMB'000 (Note) |
|---|---|---|---|
| **Revenue** | 4 | **1,548,276** | 1,497,537 |
| Cost of sales | | **(1,417,516)** | (1,336,059) |
| **Gross profit** | 4(b) | **130,760** | 161,478 |
| Other income | 5 | **4,094** | 998 |
| Selling expenses | | **(39,871)** | (44,829) |
| Administrative expenses | | **(15,824)** | (11,619) |
| **Profit from operations** | | **79,159** | 106,028 |
| Finance costs | 6(a) | **(15,139)** | (12,734) |
| Costs incurred in connection with the initial listing of the Company's shares | | **(19,365)** | (3,584) |
| Net loss on disposal of a subsidiary | | **–** | (156) |
| **Profit before taxation** | 6 | **44,655** | 89,554 |
| Income tax | 7 | **6,266** | (23,411) |
| **Profit for the year** | | **50,921** | 66,143 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **50,921** | 66,162 |
| Non-controlling interests | | **–** | (19) |
| **Profit for the year** | | **50,921** | 66,143 |
| **Earnings per share** | | | |
| Basic and diluted (RMB) | 10 | **0.11** | 0.15 |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018
(Expressed in RMB)

| | 2018<br>RMB'000 | 2017<br>RMB'000<br>(Note) |
|---|---|---|
| **Profit for the year** | **50,921** | 66,143 |
| **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 | **(385)** | – |
| **Total comprehensive income for the year** | **50,536** | 66,143 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **50,536** | 66,162 |
| Non-controlling interests | **–** | (19) |
| **Total comprehensive income for the year** | **50,536** | 66,143 |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018
(Expressed in RMB)

| | Note | 2018 RMB'000 | 2017 RMB'000 (Note) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **307,108** | 339,550 |
| Lease prepayments | 12 | **36,411** | 37,811 |
| | | **343,519** | 377,361 |
| **Current assets** | | | |
| Inventories | 14 | **341,151** | 266,466 |
| Trade and bills receivables | 15 | **573,172** | 499,134 |
| Prepayments, deposits and other receivables | 16 | **19,706** | 131,491 |
| Cash at bank and on hand | 17 | **154,625** | 41,302 |
| | | **1,088,654** | 938,393 |
| **Current liabilities** | | | |
| Trade and bills payables | 18 | **439,034** | 408,201 |
| Accrued expenses and other payables | 19 | **14,925** | 75,589 |
| Bank and other loans | 20 | **286,000** | 306,989 |
| Current taxation | 21(a) | **36,891** | 30,409 |
| | | **776,850** | 821,188 |
| **Net current assets** | | **311,804** | 117,205 |
| **Total assets less current liabilities** | | **655,323** | 494,566 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 21(b) | **21,050** | 41,696 |
| Other payables | 22 | **35,010** | 36,410 |
| | | **56,060** | 78,106 |
| **NET ASSETS** | | **599,263** | 416,460 |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

| | Note | 2018 RMB'000 | 2017 RMB'000 (Note) |
|---|---|---|---|
| **CAPITAL AND RESERVES** | 23 | | |
| Share capital | | **534** | – |
| Reserves | | **598,729** | 416,460 |
| **Total equity attributable to equity shareholders of the Company** | | **599,263** | 416,460 |
| **Non-controlling interests** | | **–** | – |
| **TOTAL EQUITY** | | **599,263** | 416,460 |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

Approved and authorised for issue by the board of directors on 22 March 2019.

**Liu Ping**
*Chairman*

**Lu Xiaoyu**
*Director*

The notes on pages 66 to 117 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018
(Expressed in RMB)

| | Attributable to equity shareholders of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital RMB'000 Note 23(b) | Share premium RMB'000 Note 23(d) | Other reserve RMB'000 Note 23(e) | Capital reserve RMB'000 Note 23(f) | Statutory reserve RMB'000 Note 23(g) | Exchange Reserve RMB'000 Note 23(h) | Accumulated losses/ retained profits RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| **Balance at 1 January 2017** | – | – | 250,000 | 107,021 | – | – | (6,723) | 350,298 | 2,058 | 352,356 |
| **Changes in equity for the year ended 2017:** | | | | | | | | | | |
| Profit and total comprehensive income for the year | – | – | – | – | – | – | 66,162 | 66,162 | (19) | 66,143 |
| Issuance of shares (Notes 23(b)) | – | – | – | – | – | – | – | – | – | – |
| Effect on equity in connection with disposal of a subsidiary | – | – | – | – | – | – | – | – | (2,039) | (2,039) |
| Appropriation to reserve | – | – | – | – | 5,944 | – | (5,944) | – | – | – |
| **Balance at 31 December 2017** | – | – | 250,000 | 107,021 | 5,944 | – | 53,495 | 416,460 | – | 416,460 |
| Impact on initial application of IFRS 9 (Note) | – | – | – | – | – | – | (16) | (16) | – | (16) |
| **Adjust balance at 1 January 2018** | – | – | 250,000 | 107,021 | 5,944 | – | 53,479 | 416,444 | – | 416,444 |
| **Changes in equity for the year ended 2018:** | | | | | | | | | | |
| Profit for the year | – | – | – | – | – | – | 50,921 | 50,921 | – | 50,921 |
| Other comprehensive income for the year | – | – | – | – | – | (385) | – | (385) | – | (385) |
| **Total comprehensive income** | – | – | – | – | – | (385) | 50,921 | 50,536 | – | 50,536 |
| Issuance of shares (Note 23(b)(ii)) | – | 72,248 | – | – | – | – | – | 72,248 | – | 72,248 |
| Effect on equity arising from the completion of a group reorganisation (Note 23(e)) | – | – | (70,000) | – | – | – | – | (70,000) | – | (70,000) |
| Capitalisation issue (Note 23(b)(iii)) | 396 | (396) | – | – | – | – | – | – | – | – |
| Issuance of shares by initial public offering (Note 23(b)(iv)) | 138 | 129,897 | – | – | – | – | – | 130,035 | – | 130,035 |
| Appropriation to reserve | – | – | – | – | 6,738 | – | (6,738) | – | – | – |
| | 534 | 201,749 | (70,000) | – | 6,738 | – | (6,738) | 132,283 | – | 132,283 |
| Balance at 31 December 2018 | **534** | **201,749** | **180,000** | **107,021** | **12,682** | **(385)** | **97,662** | **599,263** | **–** | **599,263** |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2018
(Expressed in RMB)

| | Note | 2018 RMB'000 | 2017 RMB'000 (Note) |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **44,655** | 89,554 |
| Adjustments for: | | | |
| Depreciation and amortisation | 6(c) | **52,612** | 50,032 |
| Net loss on disposal of property, plant and equipment | 5 | **27** | 16 |
| Finance costs | 6(a) | **15,139** | 12,734 |
| Interest income | 5 | **(292)** | (298) |
| Net loss on disposal of a subsidiary | | **–** | 156 |
| Changes in working capital: | | | |
| (Increase)/decrease in inventories | | **(74,685)** | 3,084 |
| Increase in trade and bills receivables | | **(74,059)** | (55,665) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **103,785** | (86,684) |
| Increase in trade and bills payables | | **30,833** | 14,677 |
| Net decrease on restricted bank deposits | | **2,835** | 4,400 |
| Decrease in accrued expenses and other payables | | **(9,718)** | 36 |
| **Cash generated from operations** | | **91,132** | 32,042 |
| Income tax paid | 21(a) | **(7,893)** | (62) |
| **Net cash generated from operating activities** | | **83,239** | 31,980 |
| **Investing activities** | | | |
| Payments for the purchase of property, plant and equipment | | **(18,926)** | (14,466) |
| Proceeds from disposal of property, plant and equipment | | **129** | 139 |
| Disposal of a subsidiary, net of cash disposed of | | **8,000** | (711) |
| Interest received | | **292** | 298 |
| **Net cash used in investing activities** | | **(10,505)** | (14,740) |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

| | Note | 2018 RMB'000 | 2017 RMB'000 (Note) |
|---|---|---|---|
| **Financing activities** | | | |
| Proceeds from new bank and other loans | 17(b) | **451,000** | 394,589 |
| Repayment of bank and other loans | 17(b) | **(471,989)** | (270,130) |
| Proceeds from issuance of shares | 23(b)(ii) | **72,248** | – |
| Proceeds from issuance of shares by initial public offering, net of share issuance expenses | 23(b)(iv) | **130,035** | – |
| Payments arising from reorganisation underwent by the Group | 23(e) | **(70,000)** | – |
| Net decrease in amounts due to related parties | 17(b) | **(52,501)** | (122,781) |
| Interest paid | 17(b) | **(15,139)** | (12,734) |
| **Net cash generated from/(used in) financing activities** | | **43,654** | (11,056) |
| **Net increase in cash and cash equivalents** | | **116,388** | 6,184 |
| **Cash and cash equivalents at 1 January** | 17(a) | **28,782** | 22,970 |
| **Effect of foreign exchange rate changes** | | **(230)** | (372) |
| **Cash and cash equivalents at 31 December** | 17(a) | **144,940** | 28,782 |

Note: The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See Note 2(c).

The notes on pages 66 to 117 form part of these financial statements.

# 1 CORPORATE INFORMATION

KangLi International Holdings Limited (the "Company") was incorporated in the Cayman Islands on 21 December 2017 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 19 November 2018 (the "Listing Date"). 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

The financial statements has 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 new and revised 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 and prior accounting periods reflected in these financial statements.

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

The consolidated financial statements for the year ended 31 December 2018 comprise the Group.

The Company was incorporated on 21 December 2017. Prior to the incorporation of the Company, the principal business of the Group has been carried out by Jiangsu Jiangnan Precision Metal Material Co., Limited ("Jiangnan Precision") and its subsidiary, Qingdao Jiangnan Gangcai Jiagong Limited ("Jiangnan Gangcai") which was disposed of to a third party on 21 September 2017. Pursuant to a group reorganisation to rationalise the corporate structure in preparation of the listing of the Company's shares on the Stock Exchange which was completed on 5 February 2018 (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group. The Reorganisation only involved inserting of the Company and other newly formed entities with no substantive operations as holding companies of Jiangnan Precision. Jiangnan Precision was controlled by Mr Mei Zefeng before and after the Reorganisation and therefore there were no changes in the economic substance of the ownership and the business of the Group. Accordingly, the Reorganisation has been accounted for using a principle similar to that for a reverse acquisition, with Jiangnan Precision treated as the acquirer for accounting purposes. The consolidated financial statements for the years ended 31 December 2018 and 2017 have been prepared and presented as a continuation of the consolidated financial statements of Jiangnan Precision with the assets and liabilities of Jiangnan Precision recognised and measured at their historical carrying amounts prior to the Reorganisation.

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (b) Basis of preparation of the financial statements (Continued)

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.

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

## (c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (c) Changes in accounting policies (Continued)

In preparation of the listing of the Company's shares on the Stock Exchange, the Group has early adopted IFRS 15, *Revenue from contracts with customers*, on a fully retrospective basis, and applied IFRS 15 consistently since 1 January 2017. The adoption of IFRS 15 does not have any material impact on the amount and timing of how the Group recognised revenue. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9.

#### (i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9, *Financial instruments,* including the amendments to IFRS 9, *Prepayment features with negative compensation*, to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, the comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained earnings and the related tax impact at 1 January 2018.

| | RMB'000 |
|---|---|
| **Retained earnings** | |
| Recognition of additional expected credit losses on financial assets measured at amortised cost (Note 24(a)) | 21 |
| Related tax (Note 21(b)) | (5) |
| Net decrease in retained earnings at 1 January 2018 | 16 |

Further details of the nature and effect of the changes to previous accounting policies and the transaction approach are set out below:

a. Classification of financial assets and financial liabilities

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Notes 2(h), 2(j), 2(k) and 2(l).

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (c) Changes in accounting policies (Continued)

### (i) IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* (Continued)

The measurement categories for all financial assets and financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

b. Credit losses

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

For further details on the Group's accounting policy for accounting for credit losses, see Notes 2(h)(i) and 2(h)(ii).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 at 1 January 2018.

| | RMB'000 |
|---|---|
| Loss allowance at 31 December 2017 under IAS 39 | – |
| Additional credit loss recognised at 1 January 2018 on trade and bills receivables | 21 |
| Loss allowance at 1 January 2018 under IFRS 9 | 21 |

c. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

- The assessments on the determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (c) Changes in accounting policies (Continued)

### (ii) IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

## (d) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (d) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

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

## (e) Property, plant and equipment

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

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

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

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

| | Estimated useful lives |
|---|---|
| Plant and buildings | 35 years |
| Machinery and equipment | 3–15 years |
| Motor vehicles and other equipment | 3–5 years |

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

## (f) Research and development expenditures

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

### (i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

### (ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

## (h) Credit losses and impairment of assets

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

(A) Policy applicable from 1 January 2018

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

Measurement of ECLs

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

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

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(A) Policy applicable from 1 January 2018 (Continued)

ECLs are measured on either of the following bases:

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

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

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

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

Significant increases in credit risk

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

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

– failure to make payments on their contractually due dates;

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

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

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(A) Policy applicable from 1 January 2018 (Continued)

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

Basis of calculation of interest income

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

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

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

– significant financial difficulties of the debtor;

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

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

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

Write-off policy

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as fair value through profit or loss ("FVPL") (e.g. trade and other receivables). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence of impairment included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence existed, an impairment loss for trade and other receivables and other financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade and other receivable or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

### (ii) Impairment of other non-current assets

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

- property, plant and equipment;
- prepaid interests in leasehold land classified as being held under an operating lease; and
- investment in a subsidiary in the Company's statement of financial position.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (i) Inventories and other contract costs

### (i) Inventories

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

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

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

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

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

### (ii) Other contract costs

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

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (i) Inventories and other contract costs (Continued)

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

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

## (j) Contract assets and contract liabilities

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

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

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

## (k) Trade and other receivables

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

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see Note 2(h)(i)).

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (l) Cash and cash equivalents

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

## (m) Trade and other payables

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

## (n) Interest-bearing borrowings

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

## (o) Employee benefits

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

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

### (ii) Termination benefits

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

## (p) Income tax

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (p) Income tax (Continued)

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

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

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

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

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

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (q) Provisions and contingent liabilities

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

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

## (r) Revenue and other income

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

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

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

### (i) Sale of goods

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

### (ii) Interest income

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (r) Revenue and other income (Continued)

### (iii) Government grants

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

## (s) Translation of foreign currencies

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

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

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

## (t) Borrowing costs

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

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

# 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (u) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

## (v) Segment reporting

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

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

# 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Note 24 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

## (a) Impairment losses for non-current assets

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

## (b) Expected credit loss for receivables

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

## (c) Depreciation

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

# 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:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| **Revenue from contracts with customers within the scope of IFRS 15** | | |
| Disaggregated by major products: | | |
| – Sales of cold-rolled hard steel coil | **84,478** | 65,628 |
| – Sales of hot-dipped unpainted galvanised steel products | **1,154,561** | 1,184,024 |
| – Sales of hot-dipped painted galvanised steel products | **309,237** | 247,885 |
| | **1,548,276** | 1,497,537 |

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.

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

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Customer A | **199,443** | 204,001 |
| Customer B | **167,053** | * |

* Transactions with this customer did not exceed 10% of the Group's revenue for the year ended 31 December 2017.

Details of concentration of credit risk arising from the Group's customers are set out in Note 24(a).

## (b) Segment reporting

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

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

# 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

## (b) Segment reporting (Continued)

### (i) Segment results, assets and liabilities

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2018 and 2017. 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 and selling and administrative expenses, 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 2018 and 2017 is set out below:

| | **2018** | | | |
|---|---|---|---|---|
| | **Hard steel coil RMB'000** | **Unpainted galvanised steel products RMB'000** | **Painted galvanised steel products RMB'000** | **Total RMB'000** |
| Revenue recognised at a point in time from external customers | **84,478** | **1,154,561** | **309,237** | **1,548,276** |
| Reportable segment gross profit | **5,294** | **78,595** | **46,871** | **130,760** |

| | 2017 | | | |
|---|---|---|---|---|
| | Hard steel coil RMB'000 | Unpainted galvanised steel products RMB'000 | Painted galvanised steel products RMB'000 | Total RMB'000 |
| Revenue recognised at a point in time from external customers | 65,628 | 1,184,024 | 247,885 | 1,497,537 |
| Reportable segment gross profit | 5,408 | 114,435 | 41,635 | 161,478 |

# 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

## (c) Geographic information

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

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| The PRC | **1,442,033** | 1,403,072 |
| South Korea | **94,674** | 87,996 |
| Other countries | **11,569** | 6,469 |
| | **1,548,276** | 1,497,537 |

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 provided.

# 5 OTHER INCOME

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Interest income | **292** | 298 |
| Net foreign exchange loss | **(627)** | (276) |
| Government grants | **4,224** | 305 |
| Net loss on disposal of property, plant and equipment | **(27)** | (16) |
| Others | **232** | 687 |
| | **4,094** | 998 |

# 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

## (a) Finance costs

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Interest on bank and other loans | **15,139** | 12,734 |

No borrowing costs have been capitalised for the year ended 31 December 2018 (2017: RMBNil).

## 6 PROFIT BEFORE TAXATION (CONTINUED)

### (b) Staff costs#

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Salaries, wages and other benefits | **42,120** | 32,570 |
| Contributions to defined contribution retirement plans | **3,013** | 2,405 |
| | **45,133** | 34,975 |

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 Dollars ("HK$") 30,000. Contributions to the MPF Scheme vest immediately.

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

### (c) Other items

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Depreciation and amortisation (Notes 11 and 12)# | **52,612** | 50,032 |
| Impairment losses on trade receivables (Note 24(a)) | **403** | – |
| Operating lease charges in respect of office premises and warehouses | **907** | 980 |
| Auditors' remuneration | | |
| – services in connection with the initial listing of the Company's shares | **2,100** | 750 |
| – audit services | **1,600** | – |
| Cost of inventories (Note 14(b))# | **1,417,516** | 1,336,059 |

# Cost of inventories includes RMB84,519,000 (2017: RMB73,401,000) relating to staff costs and depreciation and amortisation expenses, which amounts is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

## 7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| **Current tax (Note 21(a))** | | |
| Provision for the year | **14,375** | 24,442 |
| **Deferred tax (Note 21(b))** | | |
| Origination and reversal of temporary differences | **(5,028)** | (1,031) |
| Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group | **1,063** | – |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **(16,676)** | – |
| | **(20,641)** | (1,031) |
| | **(6,266)** | 23,411 |

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Profit before taxation | **44,655** | 89,554 |
| Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii)) | **13,439** | 22,388 |
| Tax effect of non-deductible expenses | **2,180** | 1,023 |
| Tax concessions (Note (iv)) | **(6,272)** | – |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **(16,676)** | – |
| Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group (Note (v)) | **1,063** | – |
| Actual tax expense | **(6,266)** | 23,411 |

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 of 16.5% for the year ended 31 December 2018 (2017: 16.5%). These companies did not have assessable profits which are subject to Hong Kong Profits Tax for the year ended 31 December 2018 (2017: RMBNil).

(iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2018 (2017: 25%).

(iv) One of the Group's subsidiaries established in the PRC has obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise. Pursuant to the related regulations, this subsidiary is entitled to a preferential PRC Corporate Income Tax rate of 15% for the calendar years from 2018 to 2020.

(v) A subsidiary of the Group established in the PRC intended to distribute RMB10,630,000 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 RMB1,063,000 has been recognised at 31 December 2018.

## 8 DIRECTORS' EMOLUMENTS

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

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries, allowances and benefits in-kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors** | | | | | |
| Mr Mei Zefeng | – | – | – | – | – |
| Ms Liu Ping | 146 | 467 | 198 | 8 | 819 |
| Mr Zhang Zhihong | 110 | 476 | 34 | 8 | 628 |
| Ms Lu Xiaoyu | 47 | 224 | 19 | 6 | 296 |
| Mr Xu Chao | 33 | 179 | 23 | 8 | 243 |
| **Independent non-executive directors** | | | | | |
| Mr Li Yuen Fei Roger | 49 | – | – | – | 49 |
| Mr Cao Baozhong | 12 | – | – | – | 12 |
| Mr Yang Guang | 12 | – | – | – | 12 |
| | 409 | 1,346 | 274 | 30 | 2,059 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries, allowances and benefits in-kind RMB'000 | Discretionary bonuses RMB'000 | Retirement scheme contributions RMB'000 | Total RMB'000 |
| **Executive directors** | | | | | |
| Mr Mei Zefeng | – | – | – | – | – |
| Ms Liu Ping | – | 440 | 368 | 7 | 815 |
| Mr Zhang Zhihong | – | 192 | 420 | 7 | 619 |
| Ms Lu Xiaoyu | – | 155 | 108 | – | 263 |
| Mr Xu Chao | – | 170 | 16 | 7 | 193 |
| | – | 957 | 912 | 21 | 1,890 |

On 21 December 2017, Mr Mei Zefeng and Ms Liu Ping were appointed as executive directors of the Company. On 18 May 2018, Mr Zhang Zhihong, Ms Lu Xiaoyu and Mr Xu Chao were appointed as executive directors of the Company. On 25 October 2018, Mr Li Yuen Fai Roger, Mr Cao Baozhong and Mr Yang Guang were appointed as independent non-executive directors of the Company.

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. For the year ended 31 December 2018, Mr Mei Zefeng agreed to waive director's remuneration of HK$139,375.

## 9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2017: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Salaries and other emoluments | **3,515** | 1,931 |
| Retirement scheme contributions | **24** | 20 |
| | **3,539** | 1,951 |

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

| | **2018 Number of individuals** | 2017 Number of individuals |
|---|---|---|
| HK Nil – HK$1,000,000 | **1** | 3 |
| HK$1,000,001 – HK$2,000,000 | **2** | – |

## 10 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to the equity shareholders of the Company of RMB50,921,000 and the weighted average of 468,048,000 ordinary shares in issue during the year ended 31 December 2018, comprising:

(i) 200 ordinary shares in issue as at the date of the prospectus of the Company dated 31 October 2018 (the "Prospectus") and 449,999,800 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 450,000,000 ordinary shares were outstanding throughout the year ended 31 December 2018;

(ii) 150,000,000 ordinary shares issued on 19 November 2018 by initial public offering; and

(iii) 6,252,000 ordinary shares issued on 12 December 2018 by the exercise of an over-allotment option.

## 10 EARNINGS PER SHARE (CONTINUED)

### (a) Basic earnings per share (Continued)

The basic earnings per share for the year ended 31 December 2017 is calculated based on the profit attributable to equity shareholders of the Company of RMB66,162,000 and the weighted average of 450,000,000 ordinary shares, comprising 200 ordinary shares in issue as at the date of the Prospectus and 449,999,800 ordinary shares issued pursuant to the capitalisation issue on the completion of the initial public offering, as if the above total of 450,000,000 ordinary shares were outstanding throughout the year ended 31 December 2017.

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2018 and 2017 are as follows:

| | **2018** | 2017 |
|---|---|---|
| Issued ordinary shares at 1 January | **100** | – |
| Issuance of shares upon incorporation of the Company (Note 23(b)(ii)) | **–** | 100 |
| Issuance of shares prior to the initial listing of the Company (Note 23(b)(ii)) | **100** | 100 |
| Effect of capitalisation issue on the completion of the initial public offering (Note 23(b)(iii)) | **449,999,800** | 449,999,800 |
| Effect of shares issued by initial public offering on 19 November 2018 (Note 23(b)(iv)) | **17,671,000** | – |
| Effect of shares issued by the exercise of an over-allotment option on 12 December 2018 (Note 23(b)(iv)) | **343,000** | – |
| Weighted average number of ordinary shares at 31 December | **468,014,000** | 450,000,000 |

### (b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2018 and 2017.

## 11 PROPERTY, PLANT AND EQUIPMENT

| | Plant and buildings RMB'000 | Machinery and equipment RMB'000 | Motor vehicles and other equipment RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2017 | 104,019 | 703,100 | 14,522 | 4,420 | 826,061 |
| Additions | 5,769 | 4,421 | 4,278 | – | 14,468 |
| Transfer in/(out) | 300 | 3,823 | – | (4,123) | – |
| Disposals | – | (162) | (434) | – | (596) |
| Decrease through disposal of a subsidiary | – | – | (10) | – | (10) |
| At 31 December 2017 | 110,088 | 711,182 | 18,356 | 297 | 839,923 |
| Additions | 2,793 | 4,107 | 4,960 | 7,066 | 18,926 |
| Transfer in/(out) | – | 1,901 | – | (1,901) | – |
| Disposals | – | (2,000) | (1,133) | – | (3,133) |
| **At 31 December 2018** | **112,881** | **715,190** | **22,183** | **5,462** | **855,716** |
| **Accumulated depreciation:** | | | | | |
| At 1 January 2017 | (24,222) | (418,014) | (9,956) | – | (452,192) |
| Charge for the year | (2,974) | (43,642) | (2,016) | – | (48,632) |
| Written back on disposals | – | 28 | 413 | – | 441 |
| Decrease through disposal of a subsidiary | – | – | 10 | – | 10 |
| At 31 December 2017 | (27,196) | (461,628) | (11,549) | – | (500,373) |
| Charge for the year | (3,045) | (45,762) | (2,405) | – | (51,212) |
| Written back on disposals | – | 1,900 | 1,077 | – | 2,977 |
| **At 31 December 2018** | **(30,241)** | **(505,490)** | **(12,877)** | **–** | **(548,608)** |
| **Carrying amount:** | | | | | |
| At 31 December 2017 | 82,892 | 249,554 | 6,807 | 297 | 339,550 |
| **At 31 December 2018** | **82,640** | **209,700** | **9,306** | **5,462** | **307,108** |

Certain of the Group's property, plant and equipment are pledged as collaterals for the Group's short-term bank and other loans. Further details are set out in Note 20.

## 12 LEASE PREPAYMENTS

| | RMB'000 |
|---|---|
| **Cost:** | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | 42,011 |
| **Accumulated amortisation:** | |
| At 1 January 2017 | (2,800) |
| Charge for the year | (1,400) |
| At 31 December 2017 | (4,200) |
| Charge for the year | (1,400) |
| **At 31 December 2018** | **(5,600)** |
| **Carrying amount:** | |
| At 31 December 2017 | 37,811 |
| **At 31 December 2018** | **36,411** |

Lease prepayments represent the cost of the Group's land use right in the PRC. The lease period of the land use right is 30 years, where rent is payable annually. Further details of the related payables are set out in Note 22. The land use right was pledged as collateral for the Group's short-term bank loans (see Note 20).

## 13 INVESTMENTS IN SUBSIDIARIES

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

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| Name of subsidiaries | Place and date of establishment/ incorporation | Particulars of registered/issued and paid up capital | The Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
| Jiangnan Precision (Notes (i) and (ii)) 江蘇江南精密金屬材料有限公司 | The PRC 8 August 2003 | RMB250,000,000 | 100% | – | 100% | Manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products |
| East Pacific Limited ("East Pacific") (Note (iii)) | The British Virgin Islands 3 July 2017 | United States Dollar ("US$") 1, 1 share of US$1 | 100% | 100% | – | Investment holding |
| KangLi (HK) Limited ("KangLi HK") (Note (iii)) | Hong Kong 17 July 2017 | 10,000 shares | 100% | – | 100% | Investment holding |

Notes:

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

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

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

## 14 INVENTORIES

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Raw materials and consumables | **145,612** | 109,601 |
| Finished goods | **195,539** | 156,865 |
| | **341,151** | 266,466 |

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Carrying amounts of inventories sold | **1,417,516** | 1,336,059 |

## 15 TRADE AND BILLS RECEIVABLES

| | 31 December 2018 RMB'000 | 1 January 2018 RMB'000 | 31 December 2017 RMB'000 |
|---|---|---|---|
| Trade receivables, net of loss allowance (Note (i)) | **154,533** | 113,357 | 113,378 |
| Bills receivables (Note 15(c)) | **418,639** | 385,756 | 385,756 |
| | **573,172** | 499,113 | 499,134 |

Note:

(i) Upon the adoption of IFRS 9, an opening adjustment at 1 January 2018 was made to recognise additional ECLs on trade receivables (see Note 2(c)(i)).

All of the trade and bills receivables, net of allowance for doubtful debts (if any), 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.

## 15 TRADE AND BILLS RECEIVABLES (CONTINUED)

### (a) Ageing analysis

The ageing analysis of trade receivables, based on the dates of revenue recognition and net of allowance for doubtful debts (if any), are as follows:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Within 1 month | **132,980** | 89,617 |
| 1 to 3 months | **16,185** | 23,723 |
| 3 to 6 months | **2,058** | 8 |
| Over 6 months | **3,310** | 30 |
| | **154,533** | 113,378 |

Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 24(a).

**(b)** At 31 December 2018, the Group has discounted certain of the bank acceptance notes at banks, and endorsed certain of the bank acceptance notes 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 each of 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 2018, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the bills on maturity dates amounted to RMB262,525,000 (2017: RMB534,440,000).

**(c)** At 31 December 2018, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB340,514,000 (2017: RMB317,790,000). These bills receivables were not derecognised as the Group remains exposes to the credit risk of these receivables. The carrying amount of the associated bank loans and trade payables amounted to RMB340,514,000 (2017: RMB317,790,000).

At 31 December 2018, bills receivables of the Group with carrying amount of RMB27,840,000 (2017: RMBNil) were pledged as collaterals for bills issued by the Group (see Note 18).

## 16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Consideration receivable for disposal of a subsidiary | – | 8,000 |
| Receivables from sales of scrap materials to related parties | 4,445 | – |
| Others | 1,813 | 2,738 |
| Financial assets measured at amortised cost | 6,258 | 10,738 |
| Prepayments and deposits | | |
| – Prepayments for purchase of raw materials | 8,412 | 112,606 |
| – Prepayments for utilities expenses | 5,036 | 6,964 |
| – Prepayments in connection with the initial listing of the Company's shares | – | 1,183 |
| | 13,448 | 120,753 |
| | 19,706 | 131,491 |

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

## 17 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

**(a)** Cash and cash equivalents comprise:

| | 2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|
| Cash at bank | 154,052 | 41,026 |
| Cash on hand | 573 | 276 |
| Cash at bank and on hand included in the consolidated statement of financial position | 154,625 | 41,302 |
| Less: restricted deposits (Note (i)) | 9,685 | 12,520 |
| Cash and cash equivalents included in the consolidated cash flow statement | 144,940 | 28,782 |

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

Note:

(i) Restricted deposits represent deposits placed at banks as collaterals for bills issued by the Group (see Note 18).

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

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

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

| | Bank and other loans RMB'000 Note 20 | Interest payable RMB'000 | Amounts due to related parties RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2018** | 306,989 | – | 52,501 | 359,490 |
| **Changes from financing cash flows:** | | | | |
| Proceeds from new bank and other loans | 451,000 | – | – | 451,000 |
| Repayment of bank and other loans | (471,989) | – | – | (471,989) |
| Net decrease in amounts due to related parties | – | – | (52,501) | (52,501) |
| Interest paid | – | (15,139) | – | (15,139) |
| Total changes from financing cash flows | (20,989) | (15,139) | (52,501) | (88,629) |
| Other changes: | | | | |
| Finance costs (Note 6(a)) | – | 15,139 | – | 15,139 |
| **At 31 December 2018** | 286,000 | – | – | 286,000 |

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

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

| | Bank and other loans RMB'000 Note 20 | Interest payable RMB'000 | Amounts due to related parties RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2017** | 182,530 | – | 175,965 | 358,495 |
| **Changes from financing cash flows:** | | | | |
| Proceeds from new bank and other loans | 394,589 | – | – | 394,589 |
| Repayment of bank and other loans | (270,130) | – | – | (270,130) |
| Net decrease in amounts due to related parties | – | – | (122,781) | (122,781) |
| Interest paid | – | (12,734) | – | (12,734) |
| Total changes from financing cash flows | 124,459 | (12,734) | (122,781) | (11,056) |
| Other changes: | | | | |
| Finance costs (Note 6(a)) | – | 12,734 | – | 12,734 |
| Disposal of a subsidiary | – | – | (683) | (683) |
| Total other changes | – | 12,734 | (683) | 12,051 |
| **At 31 December 2017** | 306,989 | – | 52,501 | 359,490 |

## 18 TRADE AND BILLS PAYABLES

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Trade and bills payables: | | |
| – Trade payables | **380,436** | 335,406 |
| – Bills payables | **52,155** | 36,232 |
| | **432,591** | 371,638 |
| Contract liabilities: | | |
| – Receipts in advance from customers | **6,443** | 36,563 |
| | **439,034** | 408,201 |

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

## 18 TRADE AND BILLS PAYABLES (CONTINUED)

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Within 3 months | 228,147 | 189,193 |
| Between 3 to 6 months | 193,043 | 170,951 |
| Over 6 months | 11,401 | 11,494 |
| | 432,591 | 371,638 |

## 19 ACCRUED EXPENSES AND OTHER PAYABLES

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Payables for other taxes | 5,868 | 13,641 |
| Payables for staff related costs | 4,601 | 6,469 |
| Payables for land use right premiums (Note 22) | 1,400 | 1,400 |
| Payables for costs incurred in connection with the proposal initial listing of the Company's shares | 2,253 | 339 |
| Deposits from third parties | 800 | 1,236 |
| Amounts due to related parties | – | 52,501 |
| Others | 3 | 3 |
| Financial liabilities measured at amortised cost | 14,925 | 75,589 |

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

# 20 BANK AND OTHER LOANS

The Group's short-term bank and other loans comprise:

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Bank loans: | | |
| – Secured by the Group's property, plant and equipment and land use right (Note (i)) | **31,000** | – |
| – Secured by the Group's property, plant and equipment and land use right, and guaranteed by related parties (Notes (i) and (ii)) | **–** | 49,489 |
| – Guaranteed by third parties | **160,000** | – |
| – Guaranteed by equity shareholders of the Company and/or a related party of the Group (Note (ii)) | **–** | 50,000 |
| – Guaranteed by a third party and a related party of the Group and an equity shareholder of the Company (Note (ii)) | **–** | 50,000 |
| – Unsecured and unguaranteed | **95,000** | 110,000 |
| | **286,000** | 259,489 |
| Loan from other financial institution: | | |
| – Secured by property, plant and equipment of the Group (Note (i)) | **–** | 47,500 |
| | **286,000** | 306,989 |

Notes:

(i) At 31 December 2018, the aggregate carrying amount of property, plant and equipment and land use right pledged as collaterals for the Group's short-term bank and other loans is RMB72,266,000 (2017: RMB107,284,000).

(ii) The guarantees received from equity shareholders of the Company and related parties of the Group had been terminated in 2018.

# 21 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| At the beginning of the year | **30,409** | 6,029 |
| Provision for the year (Note 7(a)) | **14,375** | 24,442 |
| Income tax paid during the year | **(7,893)** | (62) |
| At the end of the year | **36,891** | 30,409 |

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

**(b)** Deferred tax assets and liabilities recognised:

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

| | Assets | Liabilities | | |
|---|---|---|---|---|
| **Deferred tax arising from:** | **Credit loss allowance** RMB'000 | **Accelerated tax allowance for depreciation expenses** RMB'000 | **Retained profits to be distributed** RMB'000 | **Net** RMB'000 |
| At 1 January 2017 | – | (42,727) | – | (42,727) |
| Credited to the consolidated statement of profit or loss (Note 7(a)) | – | 1,031 | – | 1,031 |
| At 31 December 2017 | – | (41,696) | – | (41,696) |
| Impact on initial application of IFRS 9 (Note 2(c)(i)) | 5 | – | – | 5 |
| At 1 January 2018 | 5 | (41,696) | – | (41,691) |
| Credited to the consolidated statement of profit or loss (Note 7(a)) | 59 | 21,645 | (1,063) | 20,641 |
| **At 31 December 2018** | **64** | **(20,051)** | **(1,063)** | **(21,050)** |

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

### (c) Deferred tax liabilities not recognised

Except as disclosed in Note 7(b)(v), at 31 December 2018, taxable temporary differences relating to the retained profits of the Group's subsidiary established in the PRC (excluding Hong Kong) amounted to RMB103,489,000 (2017: RMB53,495,000), where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were recognised as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

## 22 OTHER PAYABLES

As mentioned in Note 12, the Group obtained its land use right where land use premiums are payable annually. The land use right premiums are payable as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Within 1 year | **1,400** | 1,400 |
| After 1 year but within 2 years | **1,400** | 1,400 |
| After 2 years but within 5 years | **4,200** | 4,200 |
| After 5 years | **29,410** | 30,810 |
| | **36,410** | 37,810 |
| Less: payable within 1 year (Note 19) | **(1,400)** | (1,400) |
| | **35,010** | 36,410 |

# 23 CAPITAL, RESERVES AND DIVIDENDS

## (a) Movements in components of equity

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

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

| | Share capital RMB'000 Note 23(b) | Share Premium RMB'000 Note 23(d) | Exchange Reserve RMB'000 Note 23(h) | Accumulated Losses RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|
| **Balance at 21 December 2017 (date of incorporation)** | – | – | – | – | – |
| **Changes in equity for the year ended 2017:** | | | | | |
| Issuance of shares (Note 23(b)(ii)) | – | – | – | – | – |
| **Balance at 31 December 2017 and 1 January 2018** | – | – | – | – | – |
| **Changes in equity for the year ended 2018:** | | | | | |
| Loss for the year | – | – | – | (5,857) | (5,857) |
| Other comprehensive income | – | – | (385) | – | (385) |
| **Total comprehensive income** | – | – | (385) | (5,857) | (6,242) |
| Issuance of shares (Note 23(b)(ii)) | – | 72,248 | – | – | 72,248 |
| Capitalisation Issue (Note 23(b)(iii)) | 396 | (396) | – | – | – |
| Issuance of shares by initial public offering (Note 23(b)(iv)) | 138 | 129,897 | – | – | 130,035 |
| | 534 | 201,749 | – | – | 202,283 |
| **Balance at 31 December 2018** | **534** | **201,749** | **(385)** | **(5,857)** | **196,041** |

# 23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

## (b) Share capital

| | 2018 No. of shares '000 | HK$'000 | 2017 No. of shares '000 | HK$'000 |
|---|---|---|---|---|
| Authorised: | | | | |
| Ordinary shares of HK$0.001 each (Note 23(b)(i)) | **5,000,000** | **5,000** | 380,000 | 380 |

| | 2018 No. of shares | RMB'000 | 2017 No. of shares | RMB'000 |
|---|---|---|---|---|
| Ordinary shares, issued and fully paid: | | | | |
| At 1 January | **100** | **–** | – | – |
| Issuance of shares (Note 23(b)(ii)) | **100** | **–** | 100 | – |
| Capitalisation issue (Note 23(b)(iii)) | **449,999,800** | **396** | – | – |
| Issuance of shares by initial public offering (Note 23(b)(iv)) | **150,000,000** | **133** | – | – |
| Issuance of shares by the exercise of an over-allotment option (Note 23(b)(iv)) | **6,252,000** | **5** | – | – |
| At 31 December | **606,252,000** | **534** | 100 | – |

Notes:

(i) **Authorised share capital**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 December 2017. Its initial authorised share capital was HK$380,000 divided into 380,000,000 shares with a par value of HK$0.001 per share.

On 25 October 2018, the equity shareholders of the Company resolved to increase the authorised share capital of the Company from HK$380,000 divided into 380,000,000 shares of HK$0.001 each to HK$5,000,000 divided into 5,000,000,000 shares of HK$0.001 each.

(ii) **Issuance of shares**

On the date of its incorporation, the Company issued and allotted 100 shares at par value for cash.

On 16 March 2018, 72, 18 and 10 shares were allotted and issued to Newrich Limited, Star Century Corporate Limited, which are wholly owned by Mr Mei Zefeng and Ms Liu Ping, and West Capital Limited, a third party, respectively, for an aggregate amount of HK$89,520,000 (equivalent to approximately RMB72,248,000) in cash.

# 23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

## (b) Share capital (Continued)

Notes: (Continued)

**(iii) Capitalisation issue**

Pursuant to the resolutions of the equity shareholders of the Company passed on 25 October 2018, the Company allotted and issued a total of 449,999,800 shares credited as fully paid at par to the equity shareholders whose names appeared on the register of members of the Company at the close of business on 25 October 2018 by way of capitalisation of the sum of HK$450,000 (equivalent to approximately RMB396,000) standing to the credit of the share premium account of the Company.

**(iv) Issuance of shares by initial public offering**

On 19 November 2018, 150,000,000 ordinary shares were issued at a price of HK$1.02 each upon the listing of the shares of the Company on the Stock Exchange. On 12 December 2018, 6,252,000 ordinary shares were issued at a price of HK$1.02 each upon the exercise of the over-allotment option. The proceeds of HK$156,000 (equivalent to approximately RMB138,000), representing the par value, were credited to the Company's share capital. The remaining proceeds, net of share issuance expenses, of approximately HK$146,758,000 (equivalent to approximately RMB129,897,000) were credited to the share premium account.

## (c) Dividends

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

| | **2018<br>RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Final dividend proposed after the end of the reporting period of HK$0.018 per ordinary share (2017: HK$Nil per ordinary share) | **9,567** | – |

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**

The directors of the Company did not recommend any dividend in respect of the previous financial year during the year.

## (d) Share premium

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

# 23 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

## (e) Other reserve

The balance of other reserve of the Group at 1 January 2017 represented the paid-in capital of Jiangnan Precision.

The other reserve of the Group at 31 December 2017 represented the paid-in capital of Jiangnan Precision and the issued capital of East Pacific.

As part of the Reorganisation, the Company, through its wholly owned subsidiary KangLi HK, acquired the 100% equity interests in Jiangnan Precision from each of Jiangnan Precision's then equity holders at a total consideration of RMB70,000,000. Immediately following the acquisition,Jiangnan Precision became an indirectly wholly-owned subsidiary of the Company. The balance of other reserve at 31 December 2018 represented the difference of the paid-in capital of Jiangnan Precision and the consideration paid by KangLi HK.

## (f) Capital reserve

The balance of capital reserve represented contributions from equity holders into Jiangnan Precision in the form of debt exemption prior to 1 January 2017.

## (g) Statutory reserve

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

## (h) Exchange reserve

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

## (i) Capital management

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

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

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

# 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

## (a) Credit risk

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

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

**Trade receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 5.6% (2017: 6.1%) and 14.7% (2017: 15.4%) of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

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

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

# 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (a) Credit risk (continued)

**Trade receivables (continued)**

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2018:

| | Expected loss rate % | Gross carrying amount RMB'000 | Loss allowance RMB'000 |
|---|---|---|---|
| Current (not past due) | 0.015% | 149,204 | (22) |
| Less than 1 month past due | 1% | 1,740 | (17) |
| 1 to 3 months past due | 3% | – | – |
| 3 to 6 months past due | 5% | 335 | (17) |
| Over 6 months past due | 10% | 3,678 | (368) |
| | | 154,957 | (424) |

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

**Comparative information under IAS 39**

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see Note 2(h)(i) – Policy applicable prior to 1 January 2018). At 31 December 2017, none of the trade receivables was determined to be impaired. The ageing analysis of trade receivables that were not considered to be impaired was as follows:

| | 2017 RMB'000 |
|---|---|
| Neither past due nor impaired | 113,340 |
| 3 to 6 months past due | 8 |
| Over 6 months past due | 30 |
| | 113,378 |

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

# 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (a) Credit risk (continued)

**Comparative information under IAS 39 (continued)**

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

| | RMB'000 |
|---|---|
| Balance at 31 December 2017 under IAS 39 | – |
| Impact on initial application at IFRS 9 (Note 2(c)(i)) | 21 |
| Adjusted balance at 1 January 2018 | 21 |
| Impairment losses recognised during the year | 403 |
| **At 31 December 2018** | **424** |

## (b) Liquidity risk

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

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

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| | Contractual undiscounted cash outflow | | | | | |
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Carrying amount RMB'000 |
| Bank and other loans | 292,320 | – | – | – | 292,320 | 286,000 |
| Trade and bills payables measured at amortised cost | 432,591 | – | – | – | 432,591 | 432,591 |
| Accrued expenses and other payables measured at amortised cost | 14,925 | – | – | – | 14,925 | 14,925 |
| Non-current other payables | – | 1,400 | 4,200 | 29,410 | 35,010 | 35,010 |
| | 739,836 | 1,400 | 4,200 | 29,410 | 774,846 | 768,526 |

# 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

## (b) Liquidity risk (continued)

| | 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Contractual undiscounted cash outflow | | | | | |
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Carrying amount RMB'000 |
| Bank and other loans | 309,804 | – | – | – | 309,804 | 306,989 |
| Trade and bills payables measured at amortised cost | 371,638 | – | – | – | 371,638 | 371,638 |
| Accrued expenses and other payables measured at amortised cost | 75,589 | – | – | – | 75,589 | 75,589 |
| Non-current other payables | – | 1,400 | 4,200 | 30,810 | 36,410 | 36,410 |
| | 757,031 | 1,400 | 4,200 | 30,810 | 793,441 | 790,626 |

## (c) Interest rate risk

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

The following table details the interest rate profile of the Group's total borrowings at the end of the reporting period:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Effective interest rate %** | **RMB'000** | Effective interest rate % | RMB'000 |
| Fixed rate borrowings: | | | | |
| – Bank loans | **4.3935%~5.76%** | **286,000** | 4.35%~5.76% | 259,489 |
| – Loan from other financial institution | | **–** | 4.9050% | 47,500 |
| | | **286,000** | | 306,989 |
| Fixed rate borrowings as a percentage of total borrowings | | **100%** | | 100% |

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Currency risk

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

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

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

**Exposure to foreign currencies (expressed in RMB)**

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **US$ RMB'000** | **HK$ RMB'000** | US$ RMB'000 | HK$ RMB'000 |
| Cash at bank and on hand | **2,409** | **100,763** | 10,266 | – |
| Trade and bills receivables | **5,074** | **–** | 5,633 | – |
| | **7,483** | **100,763** | 15,899 | – |

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates** | **Increase/ (decrease) in profit after tax and retained profits RMB'000** | Increase/ (decrease) in foreign exchange rates | Increase/ (decrease) in profit after tax and retained profits RMB'000 |
| US$ | **5%** | **318** | 5% | 596 |
| | **(5%)** | **(318)** | (5%) | (596) |
| HK$ | **5%** | **4,282** | 5% | – |
| | **(5%)** | **(4,282)** | (5%) | – |

## 24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

### (d) Currency risk (continued)

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

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017.

### (e) Fair value measurement

**Fair values of financial instruments carried at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31 December 2018 and 2017.

## 25 COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Commitments in respects of property, plant and equipment | | |
| – Contracted for | **1,840** | 907 |

### (b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
|---|---|---|
| Within 1 year | **124** | 111 |
| After 1 year but within 5 years | **96** | 192 |
| | **220** | 303 |

The Group leases certain office premises and warehouses under operating leases. The leases typically run for an initial period of 1 to 2 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

# 26 MATERIAL RELATED PARTY TRANSACTIONS

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

## (a) Key management personnel remuneration

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

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Short-term employee benefits | **3,669** | 3,118 |
| Contributions to defined contribution retirement plans | **53** | 40 |
| | **3,722** | 3,158 |

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

## (b) Transactions with related parties

| | **2018 RMB'000** | 2017 RMB'000 |
|---|---|---|
| Purchases of raw materials | **–** | 1,158 |
| Sales of scrap materials (Note (i)) | **17,175** | 18,953 |
| Operating lease expenses | **96** | – |
| Net decrease in amounts due to related parties | **(56,964)** | (122,781) |
| Guarantees provided to related parties at the end of the reporting period | **–** | 475,000 |
| Guarantees provided by the equity shareholders of the Company and/or a related party at the end of the reporting period | **–** | 247,000 |

Note:

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

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

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

The related party transactions in respect of operating lease expenses above constitute connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).

# 27 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | Note | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investment in a subsidiary | 13 | – | – |
| **Current assets** | | | |
| Amounts due from subsidiaries | | 177,931 | – |
| Cash at bank and on hand | | 18,110 | – |
| **Net current assets** | | 196,041 | – |
| **NET ASSETS** | | 196,041 | – |
| **CAPITAL AND RESERVES** | 23 | | |
| Share capital | | 534 | – |
| Reserves | | 195,507 | – |
| **TOTAL EQUITY** | | 196,041 | – |

Approved and authorised for issue by the board of directors on 22 March 2019.

| **Liu Ping** | **Lu Xiaoyu** |
|---|---|
| *Chairman* | *Director* |

## 28 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors of the Company proposed a final dividend. Further details are disclosed in Note 23(c).

## 29 COMPARATIVE FIGURES

The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

## 30 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate holding company and ultimate controlling parties of the Company at 31 December 2018 to be Newrich Limited, which is incorporated in the British Virgin Islands, and Mr Mei Zefeng and Ms Liu Ping, respectively. Newrich Limited does not produce financial statements available for public use.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the accounting period beginning on 1 January 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

| | Effective for accounting periods beginning on or after |
|---|---|
| IFRS 16, *Leases* | 1 January 2019 |
| IFRIC 23, *Uncertainty over income tax treatments* | 1 January 2019 |
| Annual Improvements to IFRSs 2015-2017 Cycle | 1 January 2019 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of IFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

## 31 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### IFRS 16, Leases

As disclosed in Note 2(g), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into leases as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

The Group currently does not have any significant lease payment under non-cancellable operating leases which is payable more than 1 year after the reporting date. Accordingly, the Group currently assessed that the adoption of IFRS 16 will not have a significant impact on the Group's consolidated financial statements. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

# FOUR YEARS FINANCIAL SUMMARY

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Year ended December 31, | | | |
|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | **2018**<br>**RMB'000** |
| Revenue | 1,140,716 | 1,264,109 | 1,497,537 | **1,548,276** |
| Gross profit | 93,960 | 116,093 | 161,478 | **130,760** |
| Profit for the year | 16,542 | 33,980 | 66,143 | **50,921** |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | As at December 31, | | | |
|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | **2018**<br>**RMB'000** |
| Non-current assets | 432,066 | 413,080 | 377,361 | **343,519** |
| Current assets | 801,390 | 797,539 | 938,393 | **1,088,654** |
| **Total assets** | 1,233,456 | 1,210,619 | 1,315,754 | **1,432,173** |
| Current liabilities | 839,377 | 777,726 | 821,188 | **776,850** |
| Non-current liabilities | 75,703 | 80,537 | 78,106 | **56,060** |
| **Total liabilities** | 915,080 | 858,263 | 899,294 | **832,910** |
| **NET ASSETS** | 318,376 | 352,356 | 416,460 | **599,263** |
| Total equity attributable to equity shareholders | 316,366 | 350,298 | 416,460 | **599,263** |
| Non-controlling interests | 2,010 | 2,058 | – | **–** |
| **TOTAL EQUITY** | 318,376 | 352,356 | 416,460 | **599,263** |