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KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06890)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “Board”) of directors (the “Directors”) of KangLi International Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2021, together with the comparative figures for the previous financial year, as follows:

FINANCIAL PERFORMANCE HIGHLIGHTS

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

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK\$0.05 per ordinary share for the year ended 31 December 2021, which is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting of the Company.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2021
(Expressed in Renminbi (“RMB”))

	<i>Note</i>	2021 RMB’000	2020 <i>RMB’000</i>
Revenue	3	2,035,409	1,606,146
Cost of sales		<u>(1,801,208)</u>	<u>(1,429,676)</u>
Gross profit		234,201	176,470
Other (loss)/income	4	(271)	769
Selling expenses		(55,233)	(52,567)
Administrative expenses		(20,322)	(19,290)
Impairment loss on trade receivables		<u>(785)</u>	<u>(264)</u>
Profit from operations		157,590	105,118
Finance costs	5(a)	<u>(22,943)</u>	<u>(20,281)</u>
Profit before taxation	5	134,647	84,837
Income tax	6	<u>(36,550)</u>	<u>(12,426)</u>
Profit attributable to equity shareholders of the Company for the year		<u>98,097</u>	<u>72,411</u>
Earnings per share			
Basic and diluted (<i>RMB</i>)	7	<u>0.16</u>	<u>0.12</u>

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

FOR THE YEAR ENDED 31 DECEMBER 2021

(Expressed in RMB)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2021

(Expressed in RMB)

		At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		354,300	294,369
Current assets			
Inventories		388,881	433,169
Trade and bills receivables	8	721,918	685,303
Prepayments, deposits and other receivables		231,203	235,231
Cash at bank and on hand		216,064	243,545
		<u>1,558,066</u>	<u>1,597,248</u>
Current liabilities			
Trade and bills payables	9	515,758	588,231
Accrued expenses and other payables		40,040	12,359
Bank and other loans	10	503,927	511,150
Lease liabilities	11	1,808	16,678
Current taxation		49,472	39,637
		<u>1,111,005</u>	<u>1,168,055</u>
Net current assets		<u>447,061</u>	<u>429,193</u>
Total assets less current liabilities		<u>801,361</u>	<u>723,562</u>
Non-current liabilities			
Lease liabilities	11	27,949	28,201
Deferred tax liabilities		12,188	13,211
		<u>40,137</u>	<u>41,412</u>
NET ASSETS		<u>761,224</u>	<u>682,150</u>
CAPITAL AND RESERVES			
Share capital	12	534	534
Reserves		760,690	681,616
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		<u>761,224</u>	<u>682,150</u>

Notes to the financial statements

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IASs”) and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group.

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

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(c) **Changes in accounting policies**

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

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

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

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

3 REVENUE AND SEGMENT REPORTING

(a) **Revenue**

The Group is principally engaged in the manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products. Further details regarding the Group's principal activities are disclosed in Note 3(b).

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

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

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

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

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

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

(b) Segment reporting

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

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

(i) *Segment results, assets and liabilities*

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 2021 and 2020. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below:

	2021			Total <i>RMB'000</i>
	Hard steel coil <i>RMB'000</i>	Unpainted galvanised steel products <i>RMB'000</i>	Painted galvanised steel products <i>RMB'000</i>	
Revenue from external customers recognised at a point in time	<u>100,400</u>	<u>1,258,625</u>	<u>676,384</u>	<u>2,035,409</u>
Reportable segment gross profit	<u>6,137</u>	<u>111,256</u>	<u>116,808</u>	<u>234,201</u>
	2020			
	Hard steel coil <i>RMB'000</i>	Unpainted galvanised steel products <i>RMB'000</i>	Painted galvanised steel products <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue from external customers recognised at a point in time	<u>80,994</u>	<u>965,399</u>	<u>559,753</u>	<u>1,606,146</u>
Reportable segment gross profit	<u>5,549</u>	<u>90,146</u>	<u>80,775</u>	<u>176,470</u>

(c) **Geographic information**

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

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

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

4 OTHER (LOSS)/INCOME

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

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

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

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

(b) Staff costs

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

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

The Group also operates a Mandatory Provident Fund Scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar (“HK\$”) 30,000. Contributions to the MPF Scheme vest immediately.

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

(c) **Other items**

	2021	2020
	<i>RMB’000</i>	<i>RMB’000</i>
Depreciation expenses		
– owned property, plant and equipment	39,471	47,025
– right-of-use assets	2,880	1,824
	42,351	48,849
Operating lease expenses relating to short-term leases	1,309	1,121
Auditors’ remuneration		
– audit services	1,680	1,600
Cost of inventories [#]	1,801,208	1,429,676

[#] Cost of inventories includes RMB79,863,000 (2020: RMB80,254,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

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

Notes:

- (i) The Company and a subsidiary of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective jurisdictions of incorporation.
- (ii) The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate according to the two-tiered profits tax rate regime from the year of assessment 2020/21 onwards. The profits tax rate for the first HK\$2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.
- (iii) The subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2021 (2020: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“HNTE”), which entitles the qualified enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was not qualified as a HNTE and is entitled to the tax rate of 25% for the years ended 31 December 2021(2020: 15%). The management of the Group is uncertain whether the subsidiary can obtain the HNTE qualification in 2022 and onwards, and accordingly remeasured the deferred tax balances at 1 January 2021 at the applicable tax rate of 25%.
- (v) According to the relevant tax rules in the PRC, qualified research and development costs are allowed for bonus deduction for income tax purpose, i.e an additional 100% for the year ended 31 December 2021 (2020: 75%) of such costs could be utilised as additional deductible expenses.
- (vi) A subsidiary of the Group established in the PRC intended to distribute RMB27,550,000 to its immediate holding company, KangLi (HK) Limited. Pursuant to the Sino-Hong Kong Double Tax Arrangement, the above dividend is subject to a PRC Withholding Tax rate of 10%. Accordingly, a deferred tax liability of RMB2,755,000 has been recognised at 31 December 2021.

7 EARNINGS PER SHARE

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

8 TRADE AND BILLS RECEIVABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Trade receivables, net of loss allowance	171,843	174,215
Bills receivables (<i>Note 8(c)</i>)	550,075	511,088
	<u>721,918</u>	<u>685,303</u>

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

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

(a) Ageing analysis

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

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

- (b) At 31 December 2021, the Group has discounted certain of the bank acceptance notes it received from customers at banks, and endorsed certain of the bank acceptance notes it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are of high credit standings and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 31 December 2021, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the notes on maturity dates amounted to RMB79,433,000 (2020: RMB96,789,000).
- (c) At 31 December 2021, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB283,448,000 (2020: RMB286,706,000). These bills receivables were not derecognised as the Group remains exposed to the credit risk of these receivables. The carrying amount of the associated bank loans and trade payables amounted to RMB283,448,000 (2020: RMB286,706,000).

At 31 December 2021, bills receivables of the Group with carrying amount of RMB59,902,000 (2020: RMB52,161,000) were pledged as collaterals for bills issued by the Group (see Note 9).

9 TRADE AND BILLS PAYABLES

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

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

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

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

10 BANK AND OTHER LOANS

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

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

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

- (b) At 31 December 2021, the banking facilities of the Group amounted to RMB629,000,000 (2020: RMB625,000,000) were secured by the Group's property, plant and equipment, and/or guaranteed by third parties, or unsecured and unguaranteed. These facilities were utilised to the extent of RMB483,625,000 at 31 December 2021 (2020: RMB496,950,000).
- (c) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. At 31 December 2021, none of the covenants relating to the bank loans had been breached (2020: None).

11 LEASE LIABILITIES

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

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

12 SHARE CAPITAL

	2021		2020	
	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>	<i>No. of shares</i> <i>'000</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.001 each	<u>5,000,000</u>	<u>5,000</u>	<u>5,000,000</u>	<u>5,000</u>
	2021		2020	
	<i>No. of shares</i>	<i>RMB'000</i>	<i>No. of shares</i>	<i>RMB'000</i>
Ordinary shares, issued and fully paid:				
At 1 January and at 31 December	<u>606,252,000</u>	<u>534</u>	<u>606,252,000</u>	<u>534</u>

13 DIVIDENDS

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

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

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

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

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

14 COMMITMENTS

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

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

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

15 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading midstream galvanized steel products manufacturer in the home appliance sector in Jiangsu Province, the PRC. The Group primarily engaged in the production and sales of cold rolled steel products, unpainted galvanized steel products and painted galvanized steel products to mainly midstream steel product processors for further processing and to home appliance manufacturers for production of home appliances such as refrigerators, washing machines and ovens. The Group has the production capability of pickled rolls, cold-rolled steel, unpainted galvanized steel and painted galvanized steel products along the whole industry chain.

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

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

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

PROSPECTS

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

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

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

FINANCIAL REVIEW

Revenue

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

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

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

Gross profit and gross profit margin

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

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

Other (loss)/income

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

Selling expenses

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

Administrative expenses

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

Finance costs

Finance costs of the Group increase from approximately RMB20,281,000 in 2020 to approximately RMB22,943,000 in 2021. The increase was mainly due to the increase in interest on discounted bills.

Profit before taxation

Profit before taxation of the Group increased from approximately RMB84,837,000 in 2020 to approximately RMB134,647,000 in 2021.

Income tax

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

Profit for the year

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

Liquidity and financial resources

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

Net current assets

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

Borrowings and pledge of assets

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

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

Capital structure

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination of its cash and cash equivalents, cash flows generated from operations, bank facilities, and net proceeds from the initial public offering of the Company.

Contingent liabilities

As at 31 December 2021, the Group did not have any material contingent liabilities.

Financial risks

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

– Foreign currency risks

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

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

– **Interest rate risks**

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

– **Credit risks**

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had 509 employees, including executive Directors. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical insurance, mandatory provident fund scheme, local municipal government retirement scheme and education subsidy to encourage continuous professional development of staff.

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

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

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

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

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

On 10 May 2021, the Board announced that in view of the painted galvanized steel products have a relatively higher gross profit margin and utilization rate of the existing colour coating line almost reaches its full capacity, the Company decided to reallocate RMB29,500,000 of the IPO Proceeds to fund the purchase of a new composite coating intellectual colour coating production line. RMB20,650,000 of the purchase consideration of the new composite coating intellectual colour coating production line was paid before 31 December 2021.

As at 31 December 2021, the Group had utilized the IPO Proceeds as set out in the table below:

	IPO Proceeds RMB'000	Utilized up to 31 December 2019 RMB'000	Revised allocation for lands acquisition RMB'000	Utilized during the year ended 31 December 2020 RMB'000	Revised allocation for colour coating line RMB'000	Utilized during the year ended 31 December 2021 RMB'000	Unutilized balance as at 31 December 2021 RMB'000	Intended timetable for use of the unutilized proceeds
To expand the production capacity of the hot-dip galvanization line	97,683	-	(18,490)	-	(29,500)	(20,370)	29,323	By/before 31 December 2022
To expand the production capacity of the colour coating line	-	-	-	-	29,500	(20,650)	8,850	By/before 31 December 2022
To acquire lands to accommodate the new production line	-	-	18,490	(1,000)	-	(17,490)	-	Not applicable
To repay a bank loan due for repayment in December 2018	3,964	(3,964)	-	-	-	-	-	Not applicable
To repay outstanding loans	5,439	(5,439)	-	-	-	-	-	Not applicable
Total	107,086	(9,403)	-	(1,000)	-	(58,510)	38,173	

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

MODEL CODE FOR DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' dealing in the securities of the Company. The Company has made specific enquiry of all Directors and confirmed that they have fully complied with the required standard set out in the Model Code during the year ended 31 December 2021.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

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

AUDIT COMMITTEE

As at the date of this announcement, the Audit Committee of the Company comprised three INEDs, namely, Mr. Lau Ying Kit (the chairman), Mr. Cao Baozhong and Mr. Yang Guang. The Audit Committee has reviewed the audited consolidated results of the Group for the year ended 31 December 2021 and discussed with the management the accounting principles and practices adopted by the Group, risk management and internal controls and financial reporting matters of the Group.

SCOPE OF WORK OF KPMG

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2021 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

ANNUAL GENERAL MEETING

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

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK\$0.05 per ordinary share for the year ended 31 December 2021 to the shareholders whose names appear on the register of members of the Company on Monday, 20 June 2022. The final dividend, if approved by the shareholders of the Company at the AGM, will be payable on or around Tuesday, 12 July 2022.

CLOSURE OF REGISTER OF MEMBERS

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

- (a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Friday, 10 June 2022, the register of members of the Company will be closed from Tuesday, 7 June 2022 to Friday, 10 June 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Monday, 6 June 2022.
- (b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Thursday, 16 June 2022 to Monday, 20 June 2022, both days inclusive, during which period no transfer of Shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 15 June 2022.

PUBLICATION OF FINAL RESULTS AND DISPATCH OF ANNUAL REPORT

This final results announcement is published on the websites of the Stock Exchange at (www.hkexnews.hk) and the Company at (www.jnpmm.com). The 2021 annual report containing all information required by the Listing Rules will be dispatched to the Company’s shareholders and available on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 25 March 2022

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