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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06890)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the "**Board**") of directors (the "**Directors**") of KangLi International Holdings Limited (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2019, together with the comparative figures for the corresponding period of the preceding financial year, as follows:

FINANCIAL PERFORMANCE HIGHLIGHTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Key financial information and performance ratios		
– Revenue	**691,240**	763,839
– Gross profit	**49,300**	68,823
– Gross profit margin	**7.1%**	9.0%
– Profit for the period	**12,165**	14,500
– Net profit margin	**1.8%**	1.9%
– Earnings per share	**RMB0.02**	RMB0.03

	At 30 June 2019	At 31 December 2018
	(unaudited)	(audited)
Key performance ratios		
– Current ratio	**1.5**	1.4
– Gearing ratio	**0.4**	0.5

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
			(Note)
Revenue	*4*	**691,240**	763,839
Cost of sales		**(641,940)**	(695,016)
Gross profit		**49,300**	68,823
Other income/(expenses)	*5*	**1,798**	(990)
Selling expenses		**(20,080)**	(19,524)
Administrative expenses		**(8,424)**	(9,969)
Profit from operations		**22,594**	38,340
Finance costs	*6(a)*	**(11,290)**	(8,206)
Costs incurred in connection with the initial listing of the Company's shares		**–**	(7,931)
Profit before taxation	*6*	**11,304**	22,203
Income tax	*7*	**861**	(7,703)
Profit attributable to equity shareholders of the Company for the period		**12,165**	14,500
Earnings per share			
– Basic and diluted *(RMB)*	*8*	**0.02**	0.03

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
		(Note)
Profit for the period	**12,165**	14,500
Other comprehensive income for the period (after tax):		
Item that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	**113**	88
Total comprehensive income attributable to equity shareholders of the Company for the period	**12,278**	14,588

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Note	**At 30 June 2019** *RMB'000* **(unaudited)**	**At 31 December** 2018 *RMB'000* (audited) *(Note)*
NON-CURRENT ASSETS			
Property, plant and equipment		**288,079**	307,108
Lease prepayments		**35,711**	36,411
		323,790	343,519
CURRENT ASSETS			
Inventories		**372,764**	341,151
Trade and bills receivables	*9*	**521,772**	573,172
Prepayments, deposits and other receivables		**15,144**	19,706
Cash at bank and on hand		**158,474**	154,625
		1,068,154	1,088,654
CURRENT LIABILITIES			
Trade and bills payables	*10*	**418,449**	439,034
Accrued expenses and other payables		**48,928**	14,925
Bank and other loans		**222,850**	286,000
Lease liabilities		**1,526**	–
Current taxation		**42,264**	36,891
		734,017	776,850
NET CURRENT ASSETS		**334,137**	311,804
TOTAL ASSETS LESS CURRENT LIABILITIES		**657,927**	655,323
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**20,085**	21,050
Other payables		**–**	35,010
Lease liabilities		**35,904**	–
		55,989	56,060
NET ASSETS		**601,938**	599,263
CAPITAL AND RESERVES			
Share capital		**534**	534
Reserves		**601,404**	598,729
TOTAL EQUITY		**601,938**	599,263

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

Notes:

1 CORPORATE INFORMATION

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 Group is principally engaged in the manufacture and sales of hard steel coil, unpainted galvanised steel products and painted galvanised steel products.

2 BASIS OF PREPARATION

This interim financial statements has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), including compliance with International Accounting Standard ("**IAS**") 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the "**IASB**"). It was authorised for issue on 23 August 2019.

The interim financial statements has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

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

This interim financial statements contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial statements as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 22 March 2019.

3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease, SIC-15, Operating leases – Incentives, and SIC-27, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("**short-term leases**") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in Note 11(b).

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

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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

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

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

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

(b) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in Note 11(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *RMB'000*
Operating lease commitments at 31 December 2018	**220**
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**(28)**
	192
Less: total future interest expenses	**(9)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	**183**
Total lease liabilities recognised at 1 January 2019	**183**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 *RMB'000*	Capitalisation of operating lease contracts *RMB'000*	Reclassification of operating lease contracts *RMB'000*	Carrying amount at 1 January 2019 *RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:				
Property, plant and equipment	307,108	183	–	307,291
Total non-current assets	**343,519**	**183**	**–**	**343,702**
Accrued expenses and other payables	14,925	–	(1,400)	13,525
Lease liabilities (current)	–	89	1,400	1,489
Current liabilities	**776,850**	**89**	**–**	**776,939**
Net current assets	**311,804**	**(89)**	**–**	**311,715**
Total assets less current liabilities	**655,323**	**(89)**	**–**	**655,234**
Other payables	35,010	–	(35,010)	–
Lease liabilities (non-current)	–	94	35,010	35,104
Total non-current liabilities	56,060	94	–	56,154
Net assets	**599,263**	**–**	**–**	**599,263**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019 ***RMB'000***	At 1 January 2019 *RMB'000*
Property, plant and equipment, carried at depreciated cost	**137**	183
Lease prepayments, carried at depreciated cost	**35,711**	36,411
	35,848	36,594

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments *RMB'000*	**Total minimum lease payments** *RMB'000*	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*
Within 1 year	**92**	**96**	94	96
After 1 year but within 2 years	**47**	**48**	89	96
	139	**144**	183	192
Less: total future interest expenses		**(5)**		(9)
Present value of lease liabilities		**139**		183

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the six months ended 30 June 2019.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A)	**Add back: IFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating leases as if under IAS 17 (note 1) (C)**	**Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under IAS 17
	$'000	***$'000***	***$'000***	***$'000***	*$'000*
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**22,594**	**46**	**48**	**22,592**	38,340
Finance costs	**(11,290)**	**4**	**–**	**(11,286)**	(8,206)
Profit before taxation	**11,304**	**50**	**48**	**11,306**	22,203
Profit for the period	**12,165**	**50**	**48**	**12,167**	14,500

	2019			2018
	Amounts reported under IFRS 16 (A)	**Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B)**	**Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)**	Compared to amounts reported for 2018 under IAS 17
	$'000	***$'000***	***$'000***	*$'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	**37,033**	**(48)**	**36,985**	16,052
Net cash generated from operating activities	**42,303**	**(48)**	**42,255**	15,954
Capital element of lease rentals paid	**(44)**	**44**	**–**	–
Interest element of lease rentals paid	**(4)**	**4**	**–**	–
Net cash used in financing activities	**(42,853)**	**48**	**(42,805)**	(28,407)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products		
– Sales of cold-rolled hard steel coil	**40,308**	38,252
– Sales of hot-dipped unpainted galvanised steel products	**449,803**	590,538
– Sales of hot-dipped painted galvanised steel products	**201,129**	135,049
	691,240	763,839

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

(b) Segment reporting

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

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

(i) *Segment results, assets and liabilities*

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2019 and 2018. 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 six months ended 30 June 2019 and 2018 is set out below:

	30 June 2019			
	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	**40,308**	**449,803**	**201,129**	**691,240**
Reportable segment gross profit	**2,478**	**24,989**	**21,833**	**49,300**

	30 June 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	38,252	590,538	135,049	763,839
Reportable segment gross profit	2,995	45,435	20,393	68,823

(c) Geographic information

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
The PRC	**650,899**	702,763
South Korea	**26,276**	52,055
Other countries	**14,065**	9,021
	691,240	763,839

All of the Group's non-current assets are located in the People's Republic of China (the "**PRC**"). Accordingly, no segment analysis based on geographical locations of the assets is provided.

5 OTHER INCOME/(EXPENSES)

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest income	**654**	161
Net foreign exchange gain/(loss)	**327**	(1,464)
Government grants	**1,045**	185
Net loss on disposal of property, plant and equipment	**(330)**	(45)
Others	**102**	173
	1,798	(990)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Interest on bank and other loans	**10,405**	7,279
Interest on lease liabilities	**885**	927
	11,290	8,206

No borrowing costs have been capitalised for the six months ended 30 June 2019 and 2018.

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

(b) Staff cost

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Salaries, wages and other benefits	**20,274**	18,474
Contributions to defined contribution retirement plan	**1,673**	1,317
	21,947	19,791

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Depreciation and amortisation		
– owned property, plant and equipment and lease prepayments	**23,632**	23,857
– right-of-use assets	**46**	–
Impairment losses on trade receivables	**(363)**	392
Cost of inventories	**641,940**	695,016

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

7 INCOME TAX

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current taxation		
PRC Enterprise Income Tax		
Provision for the period	**2,529**	7,213
Over-provision in respect of prior years	**(3,021)**	–
	(492)	7,213
Hong Kong Profits Tax		
Provision for the period	**596**	–
	104	7,213
Deferred taxation		
Reversal and origination of temporary difference	**(965)**	490
	(861)	7,703

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 is subject to Hong Kong Profits Tax rate of 16.5% for the six months ended 30 June 2019 (six months ended 30 June 2018: 16.5%). A subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate. In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018. Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018-2019.

(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 six months ended 30 June 2019 (six months ended 30 June 2018: 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. In addition to the preferential PRC Corporate Income Tax rate, this subsidiary is entitled to an additional tax deductible allowance calculated at 75% of the qualified research and development costs incurred by this subsidiary for the year 2018 when this subsidiary completed the final settlement and payment of enterprise income taxes for the year 2018 in May 2019.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2019 is calculated based on the profit attributable to the equity shareholders of the Company of RMB12,165,000 and the weighted average of 606,252,000 ordinary shares in issue during the interim period.

The basic earnings per share for the six months ended 30 June 2018 is calculated based on the profit attributable to the equity shareholders of the Company of RMB14,500,000 and the weighted average of 450,000,000 ordinary shares, comprising 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 six months ended 30 June 2018.

(b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2019 and 2018.

9 TRADE AND BILLS RECEIVABLES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Trade receivables, net of loss allowance	**149,213**	154,533
Bills receivables	**372,559**	418,639
	521,772	573,172

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.

(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:

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Less than 1 month	**124,077**	132,980
1 to 3 months	**24,952**	16,185
3 to 6 months	**156**	2,058
Over 6 months	**28**	3,310
Trade receivables, net of loss allowance	**149,213**	154,533

(b) At 30 June 2019, 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 30 June 2019, 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 RMB236,156,000 (31 December 2018: RMB262,525,000).

(c) At 30 June 2019, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB265,454,000 (31 December 2018: RMB340,514,000). 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 RMB265,454,000 (31 December 2018: RMB340,514,000).

At 30 June 2019, bills receivables of the Group with carrying amount of RMB18,762,000 (31 December 2018: RMB27,840,000) were pledged as collaterals for bills issued by the Group (see Note 10).

10 TRADE AND BILLS PAYABLES

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Trade and bills payables:		
– Trade payables	**272,006**	380,436
– Bills payables	**128,445**	52,155
	400,451	432,591
Contract liabilities:		
– Receipts in advance from customers	**17,998**	6,443
	418,449	439,034

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

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

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**250,623**	228,147
Between 3 to 6 months	**141,790**	193,043
Over 6 months	**8,038**	11,401
	400,451	432,591

11 COMMITMENTS

(a) Capital commitments

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Commitments in respect of property, plant and equipment and land use rights:		
– Contracted for	**3,324**	1,840

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

	Properties *RMB'000*
Within 1 year	124
After 1 year but within 5 years	96
	220

The Group is the lessee in respect of properties held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3.

12 DIVIDENDS

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: RMB Nil).

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 well-equipped facilities and production lines, enabling the Group to provide the customers with cold-rolled hard steel coil, unpainted galvanized steel and painted galvanized steel products.

During the first half of 2019, the Group achieved a revenue amounting to RMB691,240,000, a decrease of approximately 9.5% compared with the same period in 2018.

As at 30 June 2019, the sales volume of our hard steel coil products and galvanized steel products totalled 128,520 tonnes, representing a decrease of 8,364 tonnes or approximately 6.1% compared with 136,884 tonnes for the same period in 2018, among which the sales volume of our cold rolled steel products and galvanized steel products were 9,368 tonnes and 119,152 tonnes respectively. Among the galvanized steel products, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 89,329 tonnes and 29,823 tonnes respectively. The latter represents an increase of 11,143 tonnes compared with that for the corresponding period in 2018.

As the gross profit margin of painted galvanized steel products is higher than that of unpainted galvanized steel products, the Group strengthened the efforts in the development of the business of painted galvanized steel products and hence resulting in its further expansion and development, with its production line's capacity utilization rate further enhanced to over 80%.

The Group will vigorously promote its initiatives of capacity expansion. Currently, it is in active communication with relevant local government authorities for securing the land parcels needed for such initiatives. The progress is slightly behind schedule as land approval has to undergo complicated procedures and is currently underway.

PROSPECT

China's economy entered a new phase of slower growth in the first half of 2019. Overall speaking, at this point of time, given that home appliances are a traditional industry, its consumption market is relatively sluggish. Demand for first-time purchases is weakening, while demand for replacement is growing and dominating.

China has already undertaken to the international community that it will proactively perform the obligations under United Nations Framework Convention on Climate Change, Paris Agreement and Montreal Protocol, for which it has set up goals to control greenhouse gases and implemented various measures. On 13 June 2019, seven departments including the National Development and Reform Commission jointly issued the Green and High Efficiency Cooling Solutions, proposing a significant improvement in standard of cooling products efficiency and a compulsory elimination of low-efficiency cooling products. It is targeted that by 2022, the market share of green and high-efficiency cooling will be increased by 20%, saving 100 gigawatt hours annually. Specifically, it covers home appliances, of which air conditioners and refrigerators are the key products. The issuance of the proposal is a mid to long term favorable policy to the home appliances consumption market.

The Group is committed to becoming a supplier with a whole range of ancillary services and products of the highest quality in the field of home appliances, for which we make ongoing efforts. We believe that under the macro-control of the Chinese government, the home appliance market will gradually go through the transitional stage of slow growth in terms of scale. We will actively promote the initiatives to expand production and strive to achieve a sustainable business development, thereby bringing long-term values to our shareholders.

FINANCIAL REVIEW

Financial Results

Revenue

Revenue of the Group was mainly generated from sales of hard steel coil, unpainted galvanized steel products and painted galvanized steel products. For the six months ended 30 June 2019, the revenue of the Group amounted to RMB691,240,000, representing a decrease of approximately 9.5% from RMB763,839,000 for the six months ended 30 June 2018. The decrease in the Group's revenue was primarily attributable to the decrease of the sales volume of unpainted galvanized steel products and the decrease in selling prices for both hard steel coil products and galvanized steel products.

An analysis of the Group's revenue, sales volume and average selling price by products in 2019 and 2018 is as follows:

	Six months ended 30 June								
	2019			2018			Change		
	Revenue	**Sales volume**	**Average selling price**	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price
	RMB'000	***tonnes***	***RMB/tonne***	*RMB'000*	*tonnes*	*RMB/tonne*	%	%	%
Cold rolled steel products									
Hard steel coil	**40,308**	**9,368**	**4,303**	38,252	8,527	4,486	5.4%	9.9%	–4.1%
Hot-dip galvanized steel products	**650,932**	**119,152**	**5,463**	725,587	128,357	5,653	–10.3%	–7.2%	–3.4%
– unpainted galvanized steel products	**449,803**	**89,329**	**5,035**	590,538	109,677	5,384	–23.8%	–18.6%	–6.5%
– painted galvanized steel products	**201,129**	**29,823**	**6,744**	135,049	18,680	7,230	48.9%	59.7%	–6.7%
Total	**691,240**	**128,520**	**5,378**	763,839	136,884	5,580	–9.5%	–6.1%	–3.6%

Gross profit and gross profit margin

Gross profit of the Group amounted to RMB49,300,000 for the six months ended 30 June 2019, representing a decrease of approximately 28.4% from RMB68,823,000 in the six months ended 30 June 2018. Gross profit margin decreased from 9.0% in 2018 to 7.1% in 2019. An analysis of the Group's gross profit and gross profit margin by products for the six months ended 30 June 2019 and 2018 is as follows:

	Six months ended 30 June			
	2019		2018	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
	RMB'000	**%**	*RMB'000*	%
Cold rolled steel products				
Hard steel coil	**2,478**	**6.1%**	2,995	7.8%
Hot-dip galvanized steel products	**46,822**	**7.2%**	65,828	9.1%
– unpainted galvanized steel products	**24,989**	**5.6%**	45,435	7.7%
– painted galvanized steel products	**21,833**	**10.9%**	20,393	15.1%
Total	**49,300**	**7.1%**	68,823	9.0%

A decrease in the overall 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 steel price on the raw materials market. As a result of the lagged-behind effect of the rise of market price of finished steel products, the change of such prices 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 mitigating such lagged-behind effect.

Other income/(expenses)

The Group recorded an other expenses of RMB990,000 for the six months ended 30 June 2018 while an other income of RMB1,798,000 was recorded for the six months ended 30 June 2019. The other expenses for the six months ended 30 June 2018 was mainly attributable to the net foreign exchange loss amounted to RMB1,464,000. The other income of the Group for the six months ended 30 June 2019 was mainly attributable to the interest income of RMB654,000 and the government grants of RMB1,045,000.

Selling expenses

Selling expenses of the Group increased slightly from RMB19,524,000 for the six months ended 30 June 2018 to RMB20,080,000 for the six months ended 30 June 2019.

Administrative expenses

Administrative expenses of the Group decreased from RMB9,969,000 for the six months ended 30 June 2018 to RMB8,424,000 for the six months ended 30 June 2019. This was mainly due to the enhanced cost control measures implemented by the Group during the period.

Finance costs

Finance costs of the Group increased from RMB8,206,000 for the six months ended 30 June 2018 to RMB11,290,000 for the six months ended 30 June 2019. The increase was mainly due to the increase in interests expenses during the current period.

Profit before tax

Profit before taxation of the Group decreased from RMB22,203,000 for the six months ended 30 June 2018 to RMB11,304,000 for the six months ended 30 June 2019.

Income tax

The Group recorded income tax expenses of RMB7,703,000 for the six months ended 30 June 2018 while income tax credit of RMB861,000 was recorded for the six months ended 30 June 2019. Such change was attributable to decrease of income tax expenses incurred for the current period as a result of one of the Group's subsidiaries established in the PRC obtained approval from the relevant tax bureau to be taxed as an advanced and new technology enterprise in November 2018. A preferential income tax rate of 15% was applied for the six months ended 30 June 2019 while an income tax rate of 25% was applied for the six months ended 30 June 2018. In addition, an over-provision of income tax expense amounted to RMB3,021,000 was reversed in the current period.

Profit attributable to equity shareholders of the Company for the period

Profit attributable to equity shareholders of the Company for the period decreased from RMB14,500,000 for the six months 30 June 2018 to RMB12,165,000 for the six months ended 30 June 2019. The decrease was primarily attributable to combine effect of decrease in selling prices of steel products and increase in purchase costs of raw materials in this industry.

Liquidity and financial resources

As at 30 June 2019, the Group had cash of approximately RMB158,474,000 (31 December 2018: RMB154,625,000). As at 30 June 2019, the bank deposits placed at banks as collaterals for bills issued by the Group was approximately RMB16,500,000 in aggregate (31 December 2018: RMB9,685,000), representing an increase of 70.4% compared to 31 December 2018. The Board will ensure sufficient liquidity at any time to meet its matured liabilities.

Net current asset

The Group recorded net current assets of RMB334,137,000 as at 30 June 2019 (31 December 2018: RMB311,804,000). The current ratio, calculated by dividing the current assets by current liabilities, was 1.5 as of 30 June 2019 (31 December 2018: 1.4).

Borrowings and pledge of assets

As at 30 June 2019, the Group had bank and other loans amounting to RMB222,850,000 (31 December 2018: RMB286,000,000), of which RMB58,610,000 (31 December 2018: 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 borrowing which includes all interest-bearing loans and amounts due to related parties under accrued expenses and other payables by total equity of the Group, as at 30 June 2019 was 0.4 (31 December 2018: 0.5).

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 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 30 June 2019, the Group did not have any material contingent liabilities.

Financial risks

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

– *Foreign currency risk*

Most of the Group's businesses are settled in Renminbi. However, the Group's sales to overseas customers are settled in foreign currencies. For the six months ended 30 June 2019, approximately 94.2% of the Group's revenue was settled in Renminbi and the remaining of approximately 5.8% was settled in foreign currencies.

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

– *Interest rate risk*

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

– *Credit risk*

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

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2019, the Group had approximately 492 employees, including executive Directors. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical insurance, mandatory provident fund scheme, local municipal government retirement scheme and education subsidy to encourage continuous professional development of staff.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have material acquisitions and disposal of subsidiaries and associated companies for the six months ended 30 June 2019.

INTERIM DIVIDEND

The Board of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2019.

SUBSEQUENT EVENTS AFTER 30 JUNE 2019

There were no major subsequent events since 30 June 2019 and up to the date of this interim result announcement.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The Board has established the audit committee (the "**Audit Committee**") which comprises three independent non-executive Directors, namely Mr. Li Yuen Fai Roger, Mr. Cao Baozhong and Mr. Yang Guang. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process and internal controls.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 has been reviewed by the Audit Committee of the Company. The Audit Committee was satisfied that the Group's unaudited interim financial statements were prepared in accordance with applicable accounting standards and adequate disclosures of the Group's financial position as at 30 June 2019 and results for the six months ended 30 June 2019 had been made and fairly presented.

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**") and the intended uses 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 30 June 2019, the Group had utilized the IPO Proceeds as set out in the table below:

	IPO Proceeds *RMB*	Utilized up to 31 December 2018 *RMB*	Utilized during the six months ended 30 June 2019 *RMB*	Unutilized balance as at 30 June 2019 *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 of the Company dated 31 October 2018.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the Board of the Company, throughout the six months ended 30 June 2019, the Company has complied with the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code under Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision A.6.7 stipulates that independent non-executive directors and other non-executive directors of the Company should attend general meetings to gain and develop a balanced understanding of the views of shareholders. Mr. Yang Guang, being independent non-executive director of the Company, was not able to attend the annual general meeting of the Company held on 10 June 2019 due to conflicts of prior scheduled engagements with the meeting. However, the Company has reported on the items discussed at the general meeting and the feedback from the shareholders to Mr. Yang for his attention.

PURCHASE, SALES OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2019, neither the Company nor any of its subsidiaries has purchased or, sold any of the Company's securities during the six months ended 30 June 2019.

MODEL CODE FOR DIRECTOR'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' dealing in the securities of the Company. The Company has made specific enquiry of all Directors and confirmed that they have fully complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

PUBLICATION OF INTERIM RESULTS AND DISPATCH OF INTERIM REPORT

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at (www.hkexnews.hk) and the Company at (www.jnpmm.com). The interim report for the six months ended 30 June 2019 containing all information required by the Listing Rules will be dispatched to the Company's shareholders and available on the above websites in due course.

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

Hong Kong, 23 August 2019

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