



KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

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

INTERIM REPORT 2019

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

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

Independent Non-executive Directors

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

COMPANY SECRETARY

Mr. Chung Yau Tong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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AUDITORS

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HONG KONG LEGAL ADVISER

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COMPLIANCE ADVISER

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LISTING INFORMATION

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2019 RMB'000	2018 RMB'000 (Note)
Revenue	4	691,240	763,839
Cost of sales		(641,940)	(695,016)
Gross profit	4(b)	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.

The notes on pages 8 to 28 form part of this interim financial report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited
(Expressed in RMB)

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000 (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.

The notes on pages 8 to 28 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited
(Expressed in RMB)

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	3(c),9	288,079	307,108
Lease prepayments	10	35,711	36,411
		323,790	343,519
Current assets			
Inventories	11	372,764	341,151
Trade and bills receivables	12	521,772	573,172
Prepayments, deposits and other receivables	13	15,144	19,706
Cash at bank and on hand	14	158,474	154,625
		1,068,154	1,088,654
Current liabilities			
Trade and bills payables	15	418,449	439,034
Accrued expenses and other payables	16	48,928	14,925
Bank and other loans	17	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	18	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	19	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.

The notes on pages 8 to 28 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019 – unaudited
(Expressed in RMB)

	Attributable to equity shareholders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
Balance at 1 January 2018	–	–	250,000	107,021	5,944	–	53,479	416,444
Changes in equity for the six months ended 30 June 2018:								
Profit for the period	–	–	–	–	–	–	14,500	14,500
Other comprehensive income for the period	–	–	–	–	–	88	–	88
Total comprehensive income	–	–	–	–	–	88	14,500	14,588
Issuance of shares	–	72,248	–	–	–	–	–	72,248
Effect on equity arising from the completion of a group reorganisation	–	–	(70,000)	–	–	–	–	(70,000)
	–	72,248	(70,000)	–	–	–	–	2,248
Balance at 30 June 2018 and 1 July 2018	–	72,248	180,000	107,021	5,944	88	67,979	433,280
Changes in equity for the six months ended 31 December 2018:								
Profit for the period	–	–	–	–	–	–	36,421	36,421
Other comprehensive income for the period	–	–	–	–	–	(473)	–	(473)
Total comprehensive income	–	–	–	–	–	(473)	36,421	35,948
Capitalisation issue	396	(396)	–	–	–	–	–	–
Issuance of shares by initial public offering	138	129,897	–	–	–	–	–	130,035
Appropriation to reserve	–	–	–	–	6,738	–	(6,738)	–
	534	129,501	–	–	6,738	–	(6,738)	130,035
Balance at 31 December 2018 (Note)	534	201,749	180,000	107,021	12,682	(385)	97,662	599,263
Balance at 1 January 2019	534	201,749	180,000	107,021	12,682	(385)	97,662	599,263
Changes in equity for the six months ended 30 June 2019:								
Profit for the period	–	–	–	–	–	–	12,165	12,165
Other comprehensive income for the period	–	–	–	–	–	113	–	113
Total comprehensive income	–	–	–	–	–	113	12,165	12,278
Dividends approved in respect of the previous year (Note 19(a))	–	(9,603)	–	–	–	–	–	(9,603)
	–	(9,603)	–	–	–	113	12,165	2,675
Balance at 30 June 2019	534	192,146	180,000	107,021	12,682	(272)	109,827	601,938

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.

The notes on pages 8 to 28 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2019 – unaudited
(Expressed in RMB)

	Note	Six months ended 30 June	
		2019 RMB'000	2018 RMB'000 (Note)
Operating activities			
Cash generated from operations		37,033	16,052
Income tax rebated/(paid)		5,270	(98)
Net cash generated from operating activities		42,303	15,954
Investing activities			
Payments for the purchase of property, plant and equipment		(3,632)	(11,215)
Proceeds from disposal of property, plant and equipment		89	37
Disposal of a subsidiary, net of cash disposed of		–	8,000
Interest received		654	162
Net cash used in investing activities		(2,889)	(3,016)
Financing activities			
Proceeds from new bank and other loans		162,850	230,000
Repayment of bank and other loans		(226,000)	(269,689)
Proceeds from issuance of shares		–	72,248
Payments arising from reorganisation underwent by the Group		–	(70,000)
Net increase in amounts due to related parties		30,750	16,313
Capital element of lease rentals paid		(44)	–
Interest element of lease rentals paid		(4)	–
Interest paid		(10,405)	(7,279)
Net cash used in financing activities		(42,853)	(28,407)
Net decrease in cash and cash equivalents		(3,439)	(15,469)
Cash and cash equivalents at the beginning of the period	14	144,940	28,782
Effect of foreign exchange rate changes		473	76
Cash and cash equivalents at the end of the period	14	141,974	13,389

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.

The notes on pages 8 to 28 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(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 “**Listing Date**”). The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacture and sale of hard steel coil, unpainted galvanised steel products and painted galvanised steel products.

2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (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 report 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 report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 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 report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements. 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 report. 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.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Changes in the accounting policies (Continued)

(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 21(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.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(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 21(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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Transitional impact (Continued)

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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Transitional impact (Continued)

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.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

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) \$'000	Add back: IFRS 16 depreciation and interest expense (B) \$'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (note 1) (C) \$'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) \$'000	Compared to amounts reported for 2018 under IAS 17 \$'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

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

	2019			2018
	Amounts reported under IFRS 16 (A) \$'000	Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B) \$'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) \$'000	Compared to amounts reported for 2018 under IAS 17 \$'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 RMB'000	2018 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.

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

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

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			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products 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			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products 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 RMB'000	2018 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 RMB'000	2018 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 RMB'000	2018 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.

6 PROFIT BEFORE TAXATION (CONTINUED)

(b) Staff cost

	Six months ended 30 June	
	2019 RMB'000	2018 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 RMB'000	2018 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 (Note 11(b))	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 RMB'000	2018 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 (Note 18)		
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 PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 3, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group’s right-of-use assets by class of underlying asset are set out in note 3.

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired items of plant and machinery with a cost of RMB5,221,000 (six months ended 30 June 2018: RMB7,307,000). Items of plant and machinery with a net book value of RMB419,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2018: RMB83,000).

10 LEASE PREPAYMENTS

Lease prepayments represent the cost of the Group’s land use right in the PRC. The lease period of the land use right is 30 years, where rent is payable annually. The land use right was pledged as collateral for the Group’s short-term bank loans (see Note 17).

11 INVENTORIES

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials and consumables	162,767	145,612
Finished goods	209,997	195,539
	372,764	341,151

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

	Six months ended 30 June 2019 RMB'000	2018 RMB'000
Carrying amounts of inventories sold	641,940	695,016

12 TRADE AND BILLS RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 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.

12 TRADE AND BILLS RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	At 30 June 2019 RMB'000	At 31 December 2018 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 exposed 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 15).

13 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Receivables from sales of scrap materials to related parties	–	4,445
Others	2,136	1,813
Financial assets measured at amortised cost	2,136	6,258
Prepayments and deposits:		
– Prepayments for purchase of raw materials	8,947	8,412
– Prepayments for utilities expenses	4,061	5,036
	13,008	13,448
	15,144	19,706

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

14 CASH AT BANK AND ON HAND

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Cash at bank	216	573
Cash on hand	158,258	154,052
Cash at bank and on hand included in the consolidated statement of financial position	158,474	154,625
Less: restricted deposits (Note (i))	16,500	9,685
Cash and cash equivalents included in the consolidated cash flow statement	141,974	144,940

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

Note:

- (i) Restricted deposits represent deposits placed at banks as collaterals for bills issued by the Group (see Note 15).

15 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

16 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Payables for other taxes	5,941	5,868
Payables for staff related costs	1,931	4,601
Payables for land use right premiums	–	1,400
Dividends payables	9,603	–
Payables for costs incurred in connection with the proposal initial listing of the Company's shares	–	2,253
Deposits from third parties	700	800
Amounts due to related parties	30,750	–
Others	3	3
Financial liabilities measured at amortised cost	48,928	14,925

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

17 BANK AND OTHER LOANS

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment and land use right (Note (i))	58,610	31,000
– Guaranteed by third parties	135,000	160,000
– Unsecured and unguaranteed	29,240	95,000
	222,850	286,000

Notes:

- (i) At 30 June 2019, the aggregate carrying amount of property, plant and equipment and land use right pledged as collaterals for the Group's short-term bank and other loans is RMB70,843,000 (31 December 2018: RMB72,266,000).

18 DEFERRED TAX LIABILITIES

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

Deferred tax arising from:	Assets		Liabilities		Net RMB'000
	Credit loss allowance RMB'000	Accelerated tax allowance for depreciation expenses RMB'000	Retained profits to be distributed RMB'000		
At 1 January 2018	5	(41,696)	–		(41,691)
Credited/(charged) to the consolidated statement of profit or loss	59	21,645	(1,063)		20,641
At 31 December 2018	64	(20,051)	(1,063)		(21,050)
Credited/(charged) to the consolidated statement of profit or loss (Note 7)	(55)	1,020	–		965
At 30 June 2019	9	(19,031)	(1,063)		(20,085)

19 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

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

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

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, Approved during the following interim period, of HK\$0.018 per ordinary share (six months ended 30 June 2018: Nil per ordinary share)	9,603	–

(b) Capital management

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

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

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

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

The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group recognises right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This adoption had no significant impact in the Group's capital management.

20 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments carried at other than fair value

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2019 and 31 December 2018.

21 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.

22 MATERIAL RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Sales of scrap materials (Note (i))	8,771	9,084
Operating lease expenses	48	48
Net increase in amounts due to related parties	30,750	16,313

Note:

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

23 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

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 hard steel coil, 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 Performance Highlights

	Six months ended 30 June	
	2019 RMB'000 (unaudited)	2018 RMB'000 (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 (unaudited)	At 31 December 2018 (audited)
Key performance ratios		
– Current ratio	1.5	1.4
– Gearing ratio	0.4	0.5

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 RMB'000	Sales volume tonnes	Average selling price RMB/tonne	Revenue RMB'000	Sales volume tonnes	Average selling price RMB/tonne	Revenue %	Sales volume %	Average selling price %
Cold rolled steel products									
Hard steel coil	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 RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
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

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 of its cash and cash equivalents, cash flows generated from operations, bank facilities, and net proceeds from the initial public offering of the Company. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, credit facilities available and interest bearing borrowings which enable the Group to continue its operation.

Contingent liabilities

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

Financial risk management

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. The management makes periodic assessment on the recoverability of trade and other receivables based on the relationship, historical payment records and financial strength of the debtors. Adequate provision for doubtful debts has been made in the financial statements.

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.

SIGNIFICANT INVESTMENTS

As at 30 June 2019, the Group did not hold any significant investment.

CHARGES ON ASSETS

As at 30 June 2019, the Group's bills payables and short-term bank and other loans were secured by certain bills receivables of the Group with a carrying amount of RMB18,762,000 (31 December 2018: RMB27,840,000), certain bank deposits amounted to RMB16,500,000 (31 December 2018: RMB9,685,000) and certain property, plant and equipment and land use right with an aggregate carrying amount of RMB70,843,000 (31 December 2018: RMB72,266,000).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the section headed "Use of net proceeds from listing" in this interim report, the Group has no other plan for material investments and capital assets.

INTERIM DIVIDEND

The board (the "**Board**") of the directors (the "**Directors**") of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2019.

SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

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

ADDITIONAL INFORMATION

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 fairly present the Group’s financial position and results for the current period and that adequate disclosures had been made.

USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Stock Exchange on 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 the IPO Proceeds as previously disclosed in the Prospectus.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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, SALE 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 SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) to regulate the dealings of Directors of the Company in the Group’s securities. Upon specific enquiries made by the Company, all Directors have confirmed their compliance with the Model Code during the six months ended 30 June 2019.

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

At 30 June 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and The Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules, were as follows:

Interests in Shares and Underlying Shares of the Company

Name of Director	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Mei Zefeng (Note 3)	Interest of controlled corporation	342,100,000 (L)	56.43%
	Interest of spouse	85,500,000 (L)	14.10%
Ms. Liu Ping (Note 4)	Interest of controlled corporation	85,500,000 (L)	14.10%
	Interest of spouse	342,100,000 (L)	56.43%

Notes:

- (1) The Letter "L" denotes our Directors' long position in the Company's shares.
- (2) The percentage is calculated based on the total number of issued shares as at 30 June 2019.
- (3) Mr. Mei Zefeng, being the sole director of Newrich Limited, is the sole shareholder of Newrich Limited which holds 342,100,000 shares. Therefore, Mr. Mei Zefeng is deemed to be interested in Newrich Limited's interest in the Company's shares pursuant to the SFO. In addition, Mr. Mei Zefeng is the husband of Ms. Liu Ping. Therefore, Mr. Mei Zefeng is deemed to be interested in Ms. Liu Ping's interest in the Company's shares pursuant to the SFO.
- (4) Ms. Liu Ping, being the sole director of Star Century Corporate Limited, is the sole shareholder of Star Century Corporate Limited which holds 85,500,000 shares. Therefore, Ms. Liu Ping is deemed to be interested in Star Century Corporate Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Liu Ping is the wife of Mr. Mei Zefeng. Therefore, Ms. Liu Ping is deemed to be interested in Mr. Mei Zefeng's interest in the Company's shares pursuant to the SFO.

Save as disclosed above, as at 30 June 2019, so far as was known to the Directors and chief executives of the Company, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or (b) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, to the best knowledge of the Directors, the following interests and short position of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Capacity/Nature of Interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company (Note 2)
Mr. Mei Zefeng	Interest of controlled corporation	342,100,000 (L)	56.43%
	Interest of spouse	85,500,000 (L)	14.10%
Ms. Liu Ping	Interest of controlled corporation	85,500,000 (L)	14.10%
	Interest of spouse	342,100,000 (L)	56.43%
Newrich Limited	Beneficial owner	342,100,000 (L)	56.43%
Star Century Corporate Limited	Beneficial owner	85,500,000 (L)	14.10%
江蘇常州經濟開發管理委員會 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
常州東方新城建設有限公司 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
常州東方水務投資發展有限公司 (Note 3)	Interest of controlled corporation	59,000,000 (L)	9.73%
香港東方控股實業有限公司 (Note 3)	Beneficial owner	59,000,000 (L)	9.73%

Notes:

- (1) The Letter "L" denotes our Directors' long position in the Company's shares.
- (2) The percentage is calculated based on the total number of issued shares as at 30 June 2019.
- (3) 香港東方控股實業有限公司 holds 59,000,000 shares of the Company. 江蘇常州經濟開發管理委員會 holds 100% of the issued shares of 常州東方新城建設有限公司, which holds 100% of the issued shares of 常州東方水務投資發展有限公司, which holds 100% of the issued shares of 香港東方控股實業有限公司. Therefore, each of 江蘇常州經濟開發管理委員會, 常州東方新城建設有限公司 and 常州東方水務投資發展有限公司 is deemed to be interested in same number of shares in which 香港東方控股實業有限公司 is interested under the SFO.

Save as disclosed above, as at 30 June 2019, the Directors have not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTIONS

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

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

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

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

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

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

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

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

- (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date;
- (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and
- (iii) the nominal value of a share.

The Share Option Scheme is valid and effective for a period of ten years commencing on the Adoption Date.

As at 30 June 2019, there was no options outstanding, granted, cancelled, exercised or lapsed.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this interim report, at no time during the six months ended 30 June 2019 was the Company, its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate or had exercised any such right.

PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS

As at 30 June 2019, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group which is not determinable within one year without payment or compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2019, none of our Directors or their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section "Connected Transactions" in the Company's annual report 2018, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the six months ended 30 June 2019.

CHANGE IN INFORMATION OF THE DIRECTORS

During the six months ended 30 June 2019, there were no material change of the information of the Directors that required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

By Order of the Board
KangLi International Holdings Limited

Liu Ping
Chairman

Hong Kong, 23 August 2019