



KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6890

ANNUAL REPORT 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

REGISTERED OFFICE

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

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

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

PRINCIPLE PLACE OF BUSINESS IN HONG KONG

Suite 812, 8/F, Ocean Centre
Harbour City, 5 Canton Road
Tsim Sha Tsui, Kowloon, Hong Kong

AUDITORS

KPMG
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance
8th Floor, Prince's Building
10 Chater Road, Central, Hong Kong

HONG KONG LEGAL ADVISER

Wan & Tang
23/F, Somptueux Central
52 Wellington Street, Central, Hong Kong

COMPLIANCE ADVISER

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

PRINCIPAL SHARE REGISTRAR

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

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

COMPANY WEBSITE

www.jnppmm.com

LISTING INFORMATION

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

CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the board of directors of KangLi International Holdings Limited ("KangLi International Holdings" or the "Company") and its subsidiaries (collectively known as the "Group"), I am pleased to present the audited annual report for the year ended 31 December 2019 (the "Year") for shareholders' review.

REVIEW

As a private manufacturer of galvanized steel product in the home appliance sector, we are primarily engaged in the provision of galvanized steel and painted steel to mainly midstream processors and home appliance manufacturers for manufacturing home appliances, the majority of which are white goods including refrigerators and washing machines. In 2019, facing the complexity posed by the augmented risks and challenges at home and abroad, China's economy remained stable in general, despite the decrease in the pace of growth of GDP and consumables. Affected by the sustained downturn of the real estate market, the home appliances industry also experienced a bottleneck period in its development. For white goods, the refrigerator market experienced a period of bumpy rise, with approximately 6.7% growth in retail sales volume and approximately 1.0% growth in retail sales amount during the Year. The market of washing machines was relatively stable in general, with a slight 0.6% drop in retail sales amount and approximately 4.2% rise in retail sales volume. The end-user market was essentially stable, despite the gradual decrease in product prices due to the increasingly fierce competition in the market of galvanized steel products for home appliances, which had impact on the Group's business to a certain extent.

In 2019, the Group's total revenue amounted to approximately RMB1,495,630,000, representing a decrease of approximately 3.4% from approximately RMB1,548,276,000 in 2018. Our total sales volume of cold rolled steel products and galvanized steel products increased by 956 tonnes from 275,286 tonnes in 2018 to 276,242 tonnes in 2019.

In 2019, our gross profit decreased by approximately RMB31,235,000 or 23.9% from approximately RMB130,760,000 in 2018 to approximately RMB99,525,000 in 2019. Gross profit margin decreased from approximately 8.4% in 2018 to approximately 6.7% in 2019.

The utilization rate of our painted steel production line had been on the rise and essentially reached full capacity at the end of 2019. There was growth in our painted steel business. We have postponed our capacity expansion plan due to the change of planned uses in respect of the land parcels that we had identified. We are now looking for alternatives to kick off our capacity expansion plan as soon as practicable.

PROSPECTS

The Central Economic Work Conference held at the end of 2019 stressed “the holistic implementation of city-specific policies and the long-lasting austerity mechanism for stabilizing land prices, property prices and expectations, and fostering the steady and healthy development of the real estate market”. Austerity measures on the real estate industry were not slackened, while some gradual slowdown was noted. The steady development of the real estate market is good to the demand for home appliances. Since June 2019, a number of policies were introduced in the PRC to boost demand in various industries such as automobile, home appliances, consumer electronics products and so forth, and to facilitate the recycling and rejuvenation of home appliances as well as the elimination of products with high power consumption. Meanwhile, with the promotion of 5G technology and the growth in demand for non-conventional rigid-demand products such as dishwashers and tumble dryers, it is anticipated that the home appliances market will see new momentum for growth.

The Group will strive for long-term steady development and seek further expansion of its market share by engaging in active communication with local governments, identifying suitable land parcels and expediting its capacity expansion plan.

The COVID-19 pandemic in early 2020 spread across the PRC and the world at large and will likely cause substantial impact on economic development. To mitigate the effect of the COVID-19 pandemic on businesses, the PRC government has launched various policies to ease the financial burden on businesses. We believe that we can win this battle against epidemic and resume normal production and operation in the near future.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. As far as the Group's businesses are concerned, the COVID-19 pandemic may cause production and delivery delays of the Group's steel products, but the directors of the Company consider that such impact is temporary and could be reduced by expediting production upon cessation of the COVID-19 pandemic. In addition, the COVID-19 pandemic may also significantly impact the demand of the Group's steel products which in turn may result in the decrease in sales of such products, and hence the profitability of the Group's operations and the potential impairment of the Group's production facilities in future periods. Such possible decrease in the demand of the Group's products may be a result of the customers' deteriorating operations which may increase the impairment risks of related debtors in future periods.

APPRECIATION

I would like to take this opportunity to express my sincere gratitude to our shareholders, investors and business partners for their trust and support. My gratitude also goes to all of our Board members, the senior management and the employees for their hard work and contribution to the Group. Going forward, we will endeavour to carry on with the Group's development and seek stable return to the shareholders.

Liu Ping

Chairman

Hong Kong, 30 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

For the year ended 31 December 2019, the Group recorded a revenue amounting to approximately RMB1,495,630,000, a decrease of approximately 3.4% compared with that of the corresponding period in 2018.

For the year ended 31 December 2019, the sales volume of our cold rolled steel products and galvanized steel products totalled 276,242 tonnes, representing an increase of 956 tonnes or approximately 0.3% compared with 275,286 tonnes for the year ended 31 December 2018. During the review period, the sales volume of our cold rolled steel products and galvanized steel products were 20,843 tonnes and 255,399 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 189,715 tonnes and 65,684 tonnes respectively. Under fierce market competition, the year saw a remarkable decrease in both the sales volume and average selling price of unpainted galvanized steel products. The sales volume of unpainted galvanized steel products dropped from 213,611 tonnes in the year ended 31 December 2018 by 23,896 tonnes or approximately 11.2% to 189,715 tonnes in 2019. As regards painted galvanized steel products, the sales volume increased from 43,201 tonnes in the year ended 31 December 2018 by 22,483 tonnes or approximately 52.0% to 65,684 tonnes in 2019. Our total sales volume for the year ended 31 December 2019 remained relatively stable.

As the utilization of our painted galvanized steel production line was yet to reach its maximum capacity in early 2019, we geared up our efforts on boosting sales and took up additional sales orders for our painted galvanized steel products, which had led to the substantial increase in the sales volume of our painted galvanized steel products.

In 2019, with our dedication to the research and enhancement of craftsmanship, we submitted application for 9 utility model patents. By enhancing techniques and craftsmanship, we managed to uplift our production efficiency, reduce losses during production processes, and in turn lower the relevant costs of our products.

FINANCIAL REVIEW

A comparison of the financial results of the Group in 2019 and 2018 is set out as follows.

Financial Performance Highlights

	2019 RMB'000	2018 RMB'000
Key financial information		
– Revenue	1,495,630	1,548,276
– Gross profit	99,525	130,760
– Profit for the year	24,698	50,921
– Earnings per share (RMB)	0.04	0.11
Key performance ratios		
– Gross profit margin	6.7%	8.4%
– Net profit margin	1.7%	3.3%
– Return on equity	4.0%	8.5%
– Current ratio	1.5	1.4
– Gearing ratio	0.6	0.5

Revenue

Revenue of the Group is primarily generated from the sale of hard steel coil and hot-dip galvanized steel products. For the year ended 31 December 2019, the total revenue of the Group amounted to approximately RMB1,495,630,000, representing a decrease of approximately 3.4% from approximately RMB1,548,276,000 in the year ended 31 December 2018. During the year, the average selling price of the Group's hard steel coil and galvanized steel products decreased by approximately 5% to 7% as compared to the previous year, whilst the decrease in total revenue was relatively mild under the Group's efforts in adjusting the product mix for sale.

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

Year ended 31 December

	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	89,391	20,843	4,289	84,478	18,474	4,573	5.8%	12.8%	-6.2%
Hot-dip galvanized steel products	1,406,239	255,399	5,506	1,463,798	256,812	5,700	-3.9%	-0.6%	-3.4%
– unpainted galvanized steel products	969,961	189,715	5,113	1,154,561	213,611	5,405	-16.0%	-11.2%	-5.4%
– painted galvanized steel products	436,278	65,684	6,642	309,237	43,201	7,158	41.1%	52.0%	-7.2%
Total	1,495,630	276,242	5,414	1,548,276	275,286	5,624	-3.4%	0.3%	-3.7%

Gross profit and gross profit margin

For the year ended 31 December 2019, gross profit of the Group amounted to approximately RMB99,525,000 (2018: approximately RMB130,760,000). Overall gross profit margin decreased from approximately 8.4% in 2018 to approximately 6.7% in 2019. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in 2019 and 2018 is as follows:

Year ended 31 December

	2019			2018		
	Gross profit RMB'000	Proportion %	Gross profit margin %	Gross profit RMB'000	Proportion %	Gross profit margin %
Cold rolled steel products						
Hard steel coil	3,865	3.9%	4.3%	5,294	4.0%	6.3%
Hot-dip galvanized steel products	95,660	96.1%	6.8%	125,466	96.0%	8.6%
– unpainted galvanized steel products	45,635	45.9%	4.7%	78,595	60.2%	6.8%
– painted galvanized steel products	50,025	50.2%	11.5%	46,871	35.8%	15.2%
Total	99,525	100.0%	6.7%	130,760	100.0%	8.4%

A decrease in the overall gross profit margin of the Group was mainly the result of the more remarkable drop in average selling price of products than the drop in average raw material prices for the Group's products. The Company will strengthen the expectation management of market price of steel.

Other income

Other income of the Group amounted to approximately RMB5,069,000 in 2019, representing an increase of approximately RMB975,000 from approximately RMB4,094,000 in 2018. The increase was mainly attributable to an increase in interest income and net foreign exchange gain.

Selling expenses

Selling and distribution expenses of the Group increased from approximately RMB39,871,000 in 2018 to approximately RMB42,288,000 in 2019. The increase was mainly due to the increase in transportation expenses and business hospitality expenses of the Group.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB15,824,000 in 2018 to approximately RMB17,409,000 in 2019. The increase was mainly due to the increase in consultancy services fee and staff costs.

Finance costs

Finance costs of the Group increased from approximately RMB15,139,000 in 2018 to approximately RMB21,428,000 in 2019. The increase was mainly due to the increase in acceptance discounted interest.

Profit before taxation

Profit before taxation of the Group decreased from approximately RMB44,655,000 in 2018 to approximately RMB23,469,000 in 2019.

Income tax

Tax credits of approximately RMB1,229,000 and approximately RMB6,266,000 recorded for the year ended 31 December 2019 and 2018 respectively were mainly due to reverse of deferred tax resulted from timing differences and change in tax rate. The significant tax credit recorded in 2018 was due to an operating subsidiary of the Company having obtained the status of High-tech Enterprise in November 2018. That subsidiary is entitled to a preferential tax rate of 15% from 2018 to 2020 and an additional tax deductible allowance on qualified research and development costs incurred.

Profit for the year

As a result of the foregoing, profit for the year of the Group decreased from approximately RMB50,921,000 in 2018 to approximately RMB24,698,000 in 2019. Net profit margin of the Group decreased from approximately 3.3% in 2018 to approximately 1.7% in 2019. The return on equity, calculated by dividing net profit for the year by total equity at the end of the year, as at 31 December 2019, was approximately 4.0% (2018: 8.5%).

Liquidity and financial resources

As at 31 December 2019, the Group had approximately RMB184,216,000 (2018: RMB154,625,000) cash at bank and on hand. As at 31 December 2019, the restricted deposit placed at banks as collaterals for bills issued by the Group amounted to approximately RMB53,600,000 (2018: RMB9,685,000), representing an increase of approximately 4.5 times. The substantial increase was attributable to the increase in the deposit for notes payable.

Net current asset

The Group recorded net current assets of approximately RMB361,912,000 as at 31 December 2019, representing an increase of approximately 16.1% as compared with approximately RMB311,804,000 as of 31 December 2018. The current ratio, calculated by dividing the current assets by current liabilities, was approximately 1.5 as of 31 December 2019 (2018: 1.4). The net current asset and current ratio in 2019 and 2018 were comparable and remained healthy.

Borrowings and pledge of assets

As at 31 December 2019, the Group had bank borrowings amounting to approximately RMB329,769,000 (2018: RMB286,000,000), of which approximately RMB53,000,000 was secured by the Group's plant and equipment and approximately RMB129,769,000 was secured by bills receivables. All borrowings shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total borrowings which include all interest-bearing loans and amounts due to related parties under accrued expenses and other payables by total equity of the Group, was approximately 0.6 and 0.5 as at 31 December 2019 and 2018 respectively.

Capital structure

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

Contingent liabilities

As at 31 December 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. In 2019, approximately 95.6% of the Group's revenue was settled in Renminbi and approximately 4.4% was settled in foreign currencies.

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

– Interest rate risk

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

– Credit risk

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not have material acquisitions and disposals of subsidiaries and associated companies for the year ended 31 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group had 556 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.

BIOGRAPHICAL DETAILS OF THE DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Mei Zefeng (梅澤鋒先生), aged 42, was appointed as our executive Director on 21 December 2017.

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

Mr. Mei has over 17 years of experience in the steel processing industry. He has been serving as the chairman of Jiangnan Industrial Group since January 2007. He has been appointed as the supervisor of Jiangnan Rural Commercial Bank (江南農村商業銀行), a company principally engages in banking and financial services since January 2010. Mr. Mei received numerous awards in the past including “Outstanding Entrepreneur” of Wujin District (武進區“優秀企業家”), Star Industrial Entrepreneur of Changzhou City (常州市工業明星企業家) and Top 10 Outstanding Young Entrepreneur of Jiangsu Province (江蘇省十大傑出青年企業家).

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

Ms. Liu Ping (劉萍女士), aged 40, is our Chairman and was appointed as our executive Director on 21 December 2017. She is also the chairman of the Nomination Committee.

Ms. Liu graduated from Jinling Vocational Institute (金陵職業大學) (currently known as Jinling Institute of Technology (金陵科技學院)), the PRC in July 2001 with a diploma in Business Administration. She further obtained a bachelor’s degree of Business (International Business) from Queensland University of Technology, Australia in 2004. Ms. Liu joined our Group in October 2005 and served as the chief financial officer of Jiangnan Precision from October 2005 to September 2009. She has been appointed as the president of Jiangnan Precision since October 2009. Ms. Liu has been primarily responsible for overall operations and management of our Group. Ms. Liu has over 14 years of experience in financial control and enterprise management.

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

Biographical Details of the Directors and Senior Management

Mr. Zhang Zhihong (張志洪先生), aged 48, is our Chief Executive Officer and was appointed as our executive Director on 18 May 2018. He is also a member of the Remuneration Committee.

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

Mr. Zhang has over 20 years of experience in production and operations management in plastic and aluminium profile industry. Prior to joining our Group, Mr. Zhang worked as the factory manager in Jiangnan Chuangjia from January 1999 to June 2002. He also worked as the factory manager in Changzhou Huacai Construction Material Co., Limited (常州華彩建材有限公司), a company principally engages in production and sales of aluminium alloy profile, from July 2002 to April 2007.

Ms. Lu Xiaoyu (陸小玉女士), aged 44, was appointed as our executive Director on 18 May 2018 and appointed as the Financial Controller of the Group on 1 January 2020.

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

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

Mr. Xu Chao (許潮先生), aged 32, was appointed as our executive Director of our Company on 18 May 2018.

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

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

Independent non-executive Directors

Mr. Li Yuen Fai Roger (李苑輝先生), aged 59, was appointed as our independent non-executive Director on 25 October 2018. Mr. Li is the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

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

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

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

Mr. Cao Baozhong (曹寶忠先生), aged 78, was appointed as our independent non-executive Director on 25 October 2018. Mr. Cao is the chairman of the Remuneration Committee and a member of the Audit Committee and Nomination Committee.

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

Mr. Cao has over 42 years of working experience, of which over 20 years focusing on administration and human resources management and his last position was the general manager of Nam Tung (Macau) Investment Ltd. (Bank of China Macau Branch) (澳門南通信託投資有限公司 (中國銀行澳門分行)) until October 2002.

Mr. Yang Guang (楊廣先生), aged 79, was appointed as our independent non-executive Director on 25 October 2018. Mr. Yang is also a member of the Audit Committee, Remuneration Committee and Nomination Committee.

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

Mr. Yang has over 22 years of experience in steel manufacturing and processing industry. From May 1979 to May 1991, Mr. Yang worked in Shanghai Baosteel Hot Rolled Factory (上海寶鋼熱軋廠) and his last position was factory manager. Then, Mr. Yang joined Baosteel Group Corporation (寶鋼集團) in May 1991. From May 1991 to February 1993, Mr. Yang worked as director of production department (生產部部長) for overall production management and from February 1993 to May 2001, he worked as deputy general commander of project headquarters (工程指揮部) for planning, design and importation of overseas technology and equipment.

SENIOR MANAGEMENT

Mr. Guo Zhongyi (過中毅先生), aged 47, has been serving as the vice president of production of Jiangnan Precision since August 2016. Mr. Guo is mainly responsible for production management of our Group.

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

Mr. Guo has over 24 years of experience in the manufacturing industry, and prior to joining our Group he had extensive working experience in product design and development and production management.

Mr. Wu Xiaojun (吳曉俊先生), aged 46, has been the vice president of sales and the supervisor of sales department of Jiangsu Province at Jiangnan Precision since August 2016. Mr. Wu is mainly responsible for sales strategies and management of our Group.

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

Mr. Wu has over 22 years of experience in the manufacturing industry, and prior to joining our Group, he had extensive working experience in production management, material procurement and product sales.

Mr. Liu Yu (劉宇先生), aged 32, has been serving as the head of procurement of material of Jiangnan Precision since January 2017 and is mainly responsible for our Group's material procurement and management.

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

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

REPORT OF THE DIRECTORS

The board (the “Board”) of directors (the “Directors”) of KangLi International Holdings Limited (the “Company”) is pleased to present this report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in production and sales of (i) unpainted and painted galvanized steel products to midstream steel product processors; and (ii) cold rolled steel products to home appliance manufacturers. The activities of the principal subsidiaries are set out in note 12 to the consolidated financial statements. There were no significant changes in the nature of the Group’s activities during the year.

A review of the business of the Group during the year ended 31 December 2019, including an analysis of the Group’s performance during the year using financial key performance indicators and an indication of likely future developments in the Group’s business are set out under the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” in this annual report. This discussion forms part of this Directors’ Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

1. Risk of uncertain demand for our products

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

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

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

2. Price fluctuation risk of raw materials

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

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

3. Risk of shortage of supply of raw materials

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

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

4. Risks of stringent environmental laws and regulations

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

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

CORPORATE GOVERNANCE

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH KEY PARTIES

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

Customers

The Group has committed to providing high quality products and satisfactory services to each customer according to their requirements and production plan in order to maintain our brand competitiveness. The Group maintains close contact with the customers and had regular review the requirements of customers and feedbacks. Majority of our top customers have established business relationships with us for approximately 8 to 14 years.

Suppliers and subcontractors

The Group has established stable and long-term relationship with its major hot rolled steel coils suppliers. We maintain an approved suppliers list for suppliers who have passed our assessment criteria and any supplier who fails to meet our requirements will be removed from the approved suppliers list. Majority of our top suppliers have established business relationship with the Group for approximately 5 to 15 years.

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

Employees

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

USE OF NET PROCEEDS FROM LISTING

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

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

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

As at 31 December 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 year ended 31 December 2019 RMB	Unutilized balance as at 31 December 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

The remaining balance of the net proceeds was placed with banks. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus.

As disclosed in the Prospectus, the Directors have identified two parcels of land which are in proximity to the Group’s current production facilities and were then available for lease and manufacturing uses in late 2018 and based on the business development plan, the construction work of the new production plant should have begun and the instalment payment for production facilities and equipment should have been made as at 31 December 2019.

However, pursuant to the communication with the People’s Government of Hengshanqiao Town, Wujin District, Changzhou City (常州市武進區橫山橋鎮人民政府) (the “People’s Government”), according to the latest master planning of Hengshanqiao Town, the two parcels of land identified by the Company would no longer be classified as industrial use but reclassified by the PRC government as agricultural use, rendering it not fitting into the Group’s expansion plan. As securing suitable land parcels is the most critical stage of our development plan, based on the latest industrial land policy, the management has visited and explored different possible locations in close proximity to the Group’s current production base, negotiated with different potential landlords and actively communicated with the People’s Government. The development plan is behind schedule at the moment and once the suitable land parcels is secured, it is expected that the development plan will be implemented as it was intended.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 and the Group's state of affairs as at that date are set out in the consolidated financial statements in this annual report.

The Board has resolved to recommend the payment of a final dividend of HK\$0.008 per ordinary share for the year ended 31 December 2019 to the shareholders subject to shareholders' approval at the forthcoming annual general meeting.

PROPERTY, PLANT AND EQUIPMENT

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

BANK AND OTHER LOANS

Particulars of bank and other loans of the Group as at 31 December 2019 are set out in note 19 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22(b) to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 22(a) to the consolidated financial statements and details of movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 67 of this annual report.

As of 31 December 2019, the Company has a share premium balance of RMB192,182,000 which shall be available for distribution to the shareholders.

FINANCIAL SUMMARY

A summary of the condensed consolidated results and financial positions of the Group for the past five financial years is set out on page 128 of this annual report.

DIRECTORS

The Directors who held office during the year ended 31 December 2019 and up to the date of this annual report are:

Executive Directors:

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

Independent non-executive Directors:

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

In accordance with Article 84(1) of the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Accordingly, Mr. Xu Chao, Ms. Lu Xiaoyu and Mr. Li Yuen Fai Roger shall retire from office as Directors at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTOR'S SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

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

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

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

CHANGE IN INFORMATION OF THE DIRECTORS

Pursuant to Rule 13.51(B)(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the change in information of the directors is as follows:

With effect from 1 January 2019, the director's fee entitled to each of Ms. Liu Ping, Mr. Zhang Zhihong, Ms. Lu Xiaoyu and Mr. Xu Chao as an executive Director of the Company, was adjusted to HK\$120,000 per annum.

Ms. Lu Xiaoyu was appointed as the Financial Controller of the Group with effect from 1 January 2020.

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

INDEPENDENCE OF THE INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section “Connected Transactions” below, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the year ended 31 December 2019.

INDEMNITY AND DIRECTORS’ LIABILITIES INSURANCE

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

MANAGEMENT CONTRACTS

Save for service contracts of the Directors, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into by the Company or existed during the year ended 31 December 2019.

DEED OF NON-COMPETITION

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

The Company has received an annual declaration in favour of the Company from the Controlling Shareholders that the Controlling Shareholders have fully complied with their obligations under the Deed for the year ended 31 December 2019. The independent non-executive Directors have reviewed, based on the information available, and made the necessary enquiries to the Controlling Shareholders on the Deed and concluded that the Deed has been complied with and has been effectively enforced during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save and except for the interests of our Controlling Shareholders in our Company, during the year ended 31 December 2019, neither our Controlling Shareholders nor any of our Directors and their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this annual report, at no time during the year ended 31 December 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.

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

At 31 December 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	343,220,000 (L)	56.61%
	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	343,220,000 (L)	56.61%

Report of the Directors

Notes:

- (1) The Letter "L" denotes our Directors' long position in the Shares.
- (2) The percentage is calculated based on the total number of issued shares as at 31 December 2019.
- (3) Mr. Mei Zefeng, being the sole director of Newrich Limited, is the sole shareholder of Newrich Limited which holds 343,220,000 Shares. Therefore, Mr. Mei Zefeng is deemed to be interested in Newrich Limited's interest in the Shares pursuant to the SFO. In addition, Mr. Mei Zefeng is the spouse of Ms. Liu Ping. Therefore, Mr. Mei Zefeng is deemed to be interested in Ms. Liu Ping's interest in the 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 Shares pursuant to the SFO. In addition, Ms. Liu Ping is the spouse of Mr. Mei Zefeng. Therefore, Ms. Liu Ping is deemed to be interested in Mr. Mei Zefeng's interest in the Shares pursuant to the SFO.

Save as disclosed above, as at 31 December 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 31 December 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	343,220,000 (L)	56.61%
	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	343,220,000 (L)	56.61%
Newrich Limited	Beneficial owner	343,220,000 (L)	56.61%
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 Shares.
- (2) The percentage is calculated based on the total number of issued shares as at 31 December 2019.
- (3) 香港東方控股實業有限公司 holds 59,000,000 Shares. 江蘇常州經濟開發管理委員會 holds 100% of the issued shares of 常州東方新城建設有限公司, which holds 100% of the issued shares of 常州東方水務投資發展有限公司, which holds 100% of the issued shares of 香港東方控股實業有限公司. Therefore, each of 江蘇常州經濟開發管理委員會, 常州東方新城建設有限公司 and 常州東方水務投資發展有限公司 are deemed to be interested in same number of shares in which 香港東方控股實業有限公司 is interested under the SFO.

Save as disclosed above, as at 31 December 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2019 (the "Reporting Period") and neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the Reporting Period.

SHARE OPTIONS

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

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

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

- The Directors may, at its absolute discretion, make an offer to grant options to any employee of the Group, any non-executive Directors (including independent non-executive Directors), any suppliers, any customers, any adviser or any participants who shall be determined by the Directors from time to time on the basis that the Directors' opinion as to his contribution to the development and growth of the Group.
- The maximum number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 10% of the ordinary shares in issue upon the Listing (the Company may refresh this 10% limit under certain conditions) or 30% of the ordinary shares in issue from time to time where there are options to be granted and yet to be exercised.
- The total number of ordinary shares issued and to be issued upon exercise of the options granted to each qualified person under the Share Option Scheme or any other share option schemes adopted by the Company in any twelve-month period must not exceed 1% of the ordinary shares in issue. Any further grant of options which would result in the number of ordinary shares exceeding 1% requires a shareholders' approval with the relevant participant and its associates abstaining from voting.
- The offer of a grant of share options may be accepted within 21 days from the date the offer together with the payment of nominal consideration of HK\$1 by the grantee. The period (the "Option Period") within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantees. All outstanding options shall lapse, among other circumstances, when the grantee ceases to be a participant of the Share Option Scheme by reason of the termination of his/her employment.

- The subscription price will be determined by the Board at the time the grant of the options is made and shall not be less than the highest of:
 - (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date;
 - (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and
 - (iii) the nominal value of a share.
- The Share Option Scheme is valid and effective for a period of ten years commencing on 25 October 2018 (being the date of adoption of the Share Option Scheme).

As at 31 December 2019, there was no option outstanding, granted, cancelled, exercised or lapsed.

CONNECTED TRANSACTIONS

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

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

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

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

The annual caps of the transaction amounts for the three financial years ending 31 December 2018, 2019 and 2020 are RMB12.2 million, RMB12.2 million and RMB12.2 million respectively. The total transaction amounts under the Framework Sales Agreement (I) for the year ended 31 December 2018 and 2019 were approximately RMB12.0 million and RMB9.8 million respectively.

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

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

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

The annual caps of the transaction amounts for the three financial years ending 31 December 2018, 2019 and 2020 are RMB5.3 million, RMB5.3 million and RMB5.3 million respectively. The total transaction amounts under the Framework Sales Agreement (II) for the year ended 31 December 2018 and 2019 were approximately RMB5.2 million and RMB1.0 million respectively.

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

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

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

The independent auditors of the Company (the “Independent Auditors”) were engaged to report on the Company’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor’s Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Independent Auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions made by the Group disclosed above in accordance with rule 14A.56 of the Listing Rules. A copy of the Independent Auditors’ letter has been provided by the Company to the Stock Exchange.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's largest customer and five largest customers for the year ended 31 December 2019 accounted for approximately 16.3% and 49.1% respectively of the Group's total turnover for the year.

The Group's largest supplier and five largest suppliers for the year ended 31 December 2019 accounted for approximately 68.6% and 82.4% respectively of the Group's total purchases for the year.

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year ended 31 December 2019.

EMOLUMENT POLICY AND DIRECTOR'S REMUNERATION

The remuneration committee was set up for reviewing the Group's emoluments policy and advise the remuneration of the Directors and senior management of the Group with reference to their duties, responsibilities, experience and performance and also the results of the Group. Details of the remuneration of the Directors and the five highest paid individuals during the year ended 31 December 2019 are set out in notes 8 and 9 to the consolidated financial statements.

RETIREMENT BENEFIT SCHEMES

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

LITIGATION AND ARBITRATION

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

PRE-EMPTIVE RIGHTS

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

NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Details of non-adjusting event after the Reporting Period are set out in note 27 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

TAX RELIEF AND EXEMPTION

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

ANNUAL GENERAL MEETING

The Annual General Meeting ("AGM") of the Company will be held on Wednesday, 24 June 2020. The notice of AGM will be sent to shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS

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

- (a) For the purpose of determining shareholders who are entitled to attend and vote at the AGM to be held on Wednesday, 24 June 2020, the register of members of the Company will be closed from Friday, 19 June 2020 to Wednesday, 24 June 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending and voting at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 18 June 2020.
- (b) For the purpose of determining shareholders who are qualified for the final dividend, the register of members of the Company will be closed from Thursday, 2 July 2020 to Monday, 6 July 2020, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 30 June 2020.

AUDITOR

The Company has appointed KPMG as the auditor of the Company for the year ended 31 December 2019. A resolution for the re-appointment of KPMG as the auditor of the Company is to be proposed at the forthcoming AGM of the Company.

On behalf of the Board
KangLi International Holdings Limited

Liu Ping
Chairman
Hong Kong, 30 March 2020

CORPORATE GOVERNANCE REPORT

The board of directors (the “Directors”) of the Company (the “Board”) is pleased to present this Corporate Governance Report for the Reporting Period in the Company’s annual report for the year ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

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

Under the code provision A.6.7 of the CG Code, independent non-executive directors (“INED”) should attend general meetings to develop a balanced understanding of the views of shareholders. During the year, not all INEDs attended general meetings of the Company due to other business engagements, which have deviated from the code provision A.6.7 of the CG Code.

Throughout the Reporting Period, the Company has applied the principles in the CG Code which are applicable to the Company and, in the opinion of the Directors, save for the deviation of the code provision A.6.7 as described above, the Company has complied with all applicable code provisions set out in the CG Code.

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

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Mei Zefeng

Ms. Liu Ping (Chairman of the Board and Chairman of Nomination Committee)

Mr. Zhang Zhihong (Chief Executive Officer and Member of Remuneration Committee)

Ms. Lu Xiaoyu

Mr. Xu Chao

Independent non-executive Directors

Mr. Li Yuen Fai Roger (Chairman of Audit Committee and Member of Nomination Committee and Remuneration Committee)

Mr. Cao Baozhong (Chairman of Remuneration Committee and Member of Nomination Committee and Audit Committee)

Mr. Yang Guang (Member of Remuneration Committee, Nomination Committee and Audit Committee)

Corporate Governance Report

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

The Company believes that the current Board composition is well-balanced and of a diverse mix of skills and experience appropriate for the business of the Company.

The biographical information of the Directors and the relationship between the Directors and the senior management are detailed under the section headed "Biographical Details of the Directors and Senior Management" of this annual report.

Save as disclosed in the section headed "Biographical Details of the Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with each other.

Board Meetings and Directors' Attendance Records at Board and General Meeting

Under the code provision A.1.1 of the CG Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals, either in person or through electronic communication, to review the Group's overall strategies, financial and operational performances, approve the annual and interim results of the Group, assess the risk management and internal control systems, and discuss other significant matters. In addition, the Board holds general meeting to maintain an on-going dialogue with the Shareholders.

The Board held nine Board meetings in 2019 of which four were regular meetings at approximately quarterly intervals to discuss and review the Group's business development, operations and financial performance. The attendance of each director at Board meetings and general meeting is set out in the table below:

Name of Directors	Attendance/Number of Meeting(s)	
	Board Meetings	Annual General Meeting
<i>Executive Directors</i>		
Mr. Mei Zefeng	8/9	1/1
Ms. Liu Ping	9/9	1/1
Mr. Zhang Zhihong	8/9	1/1
Ms. Lu Xiaoyu	9/9	1/1
Mr. Xu Chao	8/9	1/1
<i>Independent Non-executive Directors</i>		
Mr. Li Yuen Fai Roger	8/9	1/1
Mr. Cao Baozhong	8/9	1/1
Mr. Yang Guang	7/9	0/1

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

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

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

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

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter.

Chairman and Chief Executive Officer

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

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

Independent Non-executive Directors

The Board at all the times had at least three independent non-executive Directors with at least one independent non-executive Director has appropriate professional qualifications on accounting or related financial management expertise during the year ended 2019. The total number of independent non-executive Directors representing at least one-third of the Board maintain a strong independent element on the Board in order to exercise independent judgment.

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

During the Reporting Period, the Chairman had a meeting with the independent non-executive Directors without the presence of other Directors.

Appointment, Re-election and Removal of Directors

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

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

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

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

Responsibilities of the Board and Management

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

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

Corporate Governance Report

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

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

Continuous Professional Development

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

The Company encourages its directors to participate in continuous professional development courses and seminars organized by professional institutions or professional firms at the Company's expense and read materials on relevant topics, likes corporate governance, director's duties and responsibilities, listing rules and other relevant ordinances, so that they can continuously update and further improve their relevant knowledge and skills.

During the Reporting Period, the Company provided an in-house training conducted by an external legal advisor covering the amendment of Listing Rules. In addition to the in-house training, the Directors have been provided with relevant reading materials.

According to the information provided by the Directors, a summary of training received by the Directors during the Reporting Period is as follows:

Name of Directors	Attending in-house training, Attending seminars, Reading materials
<i>Executive Directors</i>	
Mr. Mei Zefeng	✓
Ms. Liu Ping	✓
Mr. Zhang Zhihong	✓
Ms. Lu Xiaoyu	✓
Mr. Xu Chao	✓
<i>Independent Non-executive Directors</i>	
Mr. Li Yuen Fai Roger	✓
Mr. Cao Baozhong	✓
Mr. Yang Guang	✓

BOARD COMMITTEES

The Board is supported by three committees with defined roles and responsibilities for each committee. Such committees are the remuneration committee (the “Remuneration Committee”), nomination committee (the “Nomination Committee”) and audit committee (the “Audit Committee”). All committees were set up with a written terms of reference, which are in line with the relevant CG Code and available to shareholders on the Company’s website, to deal clearly with its authority and duties. The committees will report their findings and decisions and make necessary recommendations to the Board.

Minutes of the committee meetings will be drafted by the Company Secretary and circulated for the comment to the members of the committee within a reasonable time. The final version of the committee minutes are kept by the company secretary (the “Company Secretary”) and such minutes are open for inspection by any Director. All committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company’s expense.

Details of each committee and their duties are as follows:

Nomination Committee

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

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

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting. The Nomination Committee also assessed an appropriate balance of diversity perspectives of the Board is maintained.

The attendance record of each Director at the said Nomination Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Ms. Liu Ping (<i>Chairman</i>)	1/1
Mr. Li Yuen Fai Roger	1/1
Mr. Cao Baozhong	1/1
Mr. Yang Guang	1/1

To facilitate the duties of the Nomination Committee, the Board adopted a director nomination policy and a board diversity policy. Details of the two policies are as follows:

Nomination Policy

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

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

- (a) the highest personal and professional ethics and integrity;
- (b) proven achievement and competence in the nominee's field and the ability to exercise sound business judgment;
- (c) skills that are complementary to those of the existing Board;
- (d) the ability to assist and support management and make significant contributions to the Company's success;
- (e) an understanding of the fiduciary responsibilities that is required of a member of the Board and the commitment of time and energy necessary to diligently carry out those responsibilities; and
- (f) independence: the independent non-executive director candidates should meet the "independence" criteria as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the composition of the Board is in conformity with the provisions of the Listing Rules.

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

During the year ended 2019, there was no change in the composition of the Board. The Nomination Committee will review the Nomination Policy, as appropriate, to ensure its effectiveness.

Board Diversity Policy

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

The Nomination Committee review the structure of the Board annually. The Board currently comprises 8 Directors of which 6 are male and 2 are female. The age of the Directors range from 32 to 79. The Board comprised renowned experts in the area of steel manufacturing and processing industry, finance, accounting, capital market, corporate governance and management. The Nomination Committee considers that the Board is sufficiently diversified.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Remuneration Committee

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

The Remuneration Committee is responsible for reviewing the contract terms of Directors and senior management of the Group; making recommendations to the Board regarding the Group's policies and structure for remuneration of Directors and senior management of the Group; making recommendations to the Board on the remuneration packages of individual Directors and senior management and reviewing and approving incentive schemes and performance-based remuneration.

The terms of reference of the Remuneration Committee are in line with the CG Code and are accessible through the Company's website.

Remuneration Committee met once to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Directors and other related matters.

The attendance record of each Director at the said Remuneration Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Cao Baozhong (<i>Chairman</i>)	1/1
Mr. Li Yuen Fai Roger	1/1
Mr. Yang Guang	1/1
Mr. Zhang Zhihong	1/1

Details of the emoluments paid to the Directors and highest paid individuals for the year ended 2019 are set out in notes 8 and 9 to the financial statements in this annual report.

Audit Committee

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

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

During the Reporting Period, the Audit Committee held three meetings, with the help of auditor and internal control expert, to discuss and review the 2018 annual financial results and the effectiveness of the Company's risk management and internal control systems, to consider the re-appointment of external auditor, to review the 2019 interim financial results and to review and discuss the audit scope of the financial statements for the year ended 2019 and the audit fee.

The Audit Committee met the external auditors twice without the presence of the executive Directors during the Reporting Period.

The attendance record of each Director at the said Audit Committee meeting of the Company held is set out in the table below:

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Li Yuen Fai Roger (<i>Chairman</i>)	3/3
Mr. Cao Baozhong	3/3
Mr. Yang Guang	3/3

Corporate Governance Functions

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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

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

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2019.

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

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

AUDITOR'S REMUNERATION

The Company has appointed KPMG as the Auditor of the Group. The remuneration paid or payable to the Auditor in respect of audit services and non-audit services for the year ended 31 December 2019 was approximately as follows:

Type of services	Fees paid/payable RMB'000
Audit services	1,670
Non-audit services related to tax advisory services	20
	1,690

There was no disagreement between the Board and the Audit Committee on the selection and appointment of the external auditor for the year ended 31 December 2019.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS

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

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

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

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

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

Making Enquiries to the Board

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

Contact Details

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

Headquarters in the PRC

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

Fax: (86) 519-88608896

Principal place of business in Hong Kong

Suite 812, 8/F, Ocean Centre, Harbour City, 5 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong

Fax: (852) 3753-1353

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address, apart from the registered office of the Company, and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

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

The Company has in place a shareholders' communication policy to ensure that shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness.

DIVIDEND POLICY

The Company does not have any pre-determined dividend distribution ratio. The policy adopted by the Company to determine the payment and the amount of any dividends, if paid, are depended on, among other things, the Group's overall results of operation, financial position, capital requirements, cash flows and future prospects, the amount of distributable reserves of the Company and other factors that the Directors considered relevant from time to time. The declaration of dividends would be subject to the discretion of the Board and any final dividends actually distributed to shareholders would be subject to the approval of the shareholders.

CHANGE IN CONSTITUTIONAL DOCUMENTS

During the Reporting Period, the Company has not made any changes to the Memorandum and Articles of Association of the Company. An up to date version of the Memorandum and Articles of Association of the Company is available on the Company's website and the Stock Exchange's website.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPROACH

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

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

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

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

1. To achieve environmental sustainability
2. To respect human rights and social culture
3. To engage with stakeholders
4. To support our employees
5. To sustain local communities

ABOUT THIS REPORT

The Group is pleased to present its Environmental, Social and Governance (“ESG”) Report. The content contained herein focuses on providing an overview of the environmental, social and governance performance of its major operations in the PRC for the year ended 31 December 2019 (the “Reporting Year”). It helps us to keep a close eye on our current performance as well as the opportunities to improve our performance. The Reporting Year coincides with our financial year.

Scope of the Report

This report has been prepared in accordance with the “Environmental, Social and Governance Reporting Guide” in Appendix 27 to the Main Board Listing Rules (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The two ESG subject areas, namely Environmental and Social, are disclosed separately, highlighting the impacts of the operations of the Group in the PRC from 1 January 2019 to 31 December 2019.

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

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

The data and information used in this report are referenced from our archived documents, records, statistics and research. Financial data is extracted from or calculated based on the Group’s audited annual financial statements for the year ended 31 December 2019.

Feedback

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

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

ABOUT KANGLI

Our Business

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

Our Vision

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

Our Mission

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

Board of Directors (the “Board”)

As at the date of this announcement, the Board consists of:

Executive Directors	Independent Non-Executive Directors
Ms. Liu Ping (<i>Chairman</i>)	Mr. Li Yuen Fai Roger
Mr. Zhang Zhihong (Chief Executive Officer)	Mr. Cao Baozhong
Mr. Mei Zefeng	Mr. Yang Guang
Mr. Xu Chao	
Ms. Lu Xiaoyu	

OUR STAKEHOLDERS

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

Stakeholders	Probable issues of concern	Communication and responses
The Stock Exchange	Compliance with listing rules, timely and accurate announcements.	Meetings, training, roadshows, workshops, programs, website updates and announcements.
Government	Compliance with laws and regulations, prevention of tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Suppliers	Payment schedule and demand stability.	Site visits.
Shareholders/Investors	Corporate governance system, business strategy and performance, and investment return.	Organizing and participating in seminars, interviews, shareholders' meetings, issue of financial reports and/or operation reports for investors, media and analysts.
Media and Public	Corporate governance, environmental protection, and human rights.	Publishing newsletters on the Company's website.
Customers	Product quality, delivery times, reasonable prices, production value, labour protection and work safety.	Field investigation, and after-sales services.
Employees	Rights and benefits, employee compensation, training and development, work hours, and working environment.	Union activities, trainings, interviews with employees, employee handbooks, internal memos, employee's suggestion boxes.
Community	Community environment, employment and community development, and social welfare.	Community activities, employee voluntary activities, community welfare subsidies and charitable donations.

SECTION A: ENVIRONMENTAL

The Group understands the significance of environmental protection and pledges not to grow its business at the expense of the environment. We strongly believe in the value of keeping abreast of the trends in environmental policy and aligning our business with the relevant regulations. A healthy environment is fundamental to the Group's sustainable development, hence we endeavor to integrate components of environmental sustainability into our business operations through various measures, so as to decrease our carbon emission level and the relevant intensity¹.

With our dedicated effort, there was no material non-compliance in laws and regulations related to the environment for the Reporting Year. The Group will continue to be alert to any non-compliance behavior related to critical environmental issues.

Emissions

Air Pollution Emission

The Group's core business activities include manufacturing and processing galvanized steel products, which require production facilities such as fixed machines and equipment driven by natural gas. These fixed machines and equipment are mainly used for steel-galvanizing, colour-coating and hydrogen production. Apart from stationary machineries, certain kinds of mobile combustion sources were also involved in the business operations of the Group during the Reporting Year. The material air pollutants emitted from the operations of the aforementioned sources were mainly composed of sulphur oxides ("SO_x"), nitrogen oxides ("NO_x") and particulate matter ("PM"). During the Reporting Year, the total natural gas and petrol consumptions amounted to approximately 11 million m³ (2018: 10 million m³) and 16,700 L (2018: 10,400 L) respectively. The total air pollutants produced due to the fuel consumption approximated to 2,150 kg² (2018: 1,900 kg), with an intensity of approximately 4 kg per employee (2018: 4 kg). Compared to last year, the total air pollution emission during the Reporting Year has increased by 12% mainly due to the increased consumption of natural gas and petrol during production as well as normal business operations. To further minimize the production of air pollutants, all fixed machines and vehicles are under frequent checks and maintenance in order to ensure energy efficiency.

Types of Air Pollutants	Fixed combustion source		Mobile combustion source	
	2019	2018	2019	2018
NO _x (kg)	2,128.03	1,905.72	12.46	7.19
SO _x (kg)	10.59	9.48	0.25	0.17
PM (kg)	N/A	N/A	0.92	0.53
Grand Total	2,138.62	1,915.20	13.63	7.89

1 The different intensity figures in this report were calculated per employee, which were 556 employees as at 31 December 2019 (2018: 483).
 2 The air pollutant emission factor from natural gas consumption was assumed to be as same as that from LPG, which was equivalent to 4.02 and 0.02 kg/million MJ of gas for NO_x and SO_x respectively, latest announced by the Stock Exchange in their Reporting Guide.

Greenhouse Gas Emission

Global warming is mainly attributable to greenhouse gas emissions. During the Reporting Year, the total greenhouse gas (“GHG”) emission by the Group weighted approximately 87,800 tons (2018: 72,000 tons), with a 22% increase compared to last Year due to the inclusion of GHG emissions from natural gas consumption in this ESG report. The main culprits of the GHG emission by the Group were direct emission from sources (scope 1 emission) and indirect emissions from electricity and gas consumption (scope 2 emission), which accounted for approximately 38% and 62% of the GHG emission respectively. Alongside the aforementioned sources, other indirect emission sources include electricity used in fresh water and sewage processing, paper waste disposal at landfills and business air travels by our employees, which accounted for the remaining less than 1% of the GHG emission as a whole. During the Reporting Year, the intensity was approximately 158 tons per employee (2018: 149 tons per employees), with a slight increase of 5.88% compared with last Year, considering the total number of 556 employees (2018: 483) by the end of the Reporting Year.

GHG Emission Sources	GHG produced in 2019 (tons)	GHG produced in 2018 (tons)	Variance (%)
Scope 1 – Direct emission from sources			
– Fixed machines and equipment	33,272.96	22,305.80	49.17
– Mobile vehicles	45.18	27.56	63.93
Scope 2 – Indirect emissions from electricity and gas consumption			
– Electricity consumption ³	48,128.10	49,541.76	– 2.85
– Natural gas consumption ⁴	6,193.51	Not disclosed ⁵	N/A
Scope 3 – Other indirect emission sources			
– Paper waste disposal in landfills	14.69	29.82	– 50.74
– Electricity used for processing fresh water ⁶	89.27	80.25	11.24
– Electricity used for processing sewage	43.32	40.28 ⁷	7.55
– Business air travel by employees	7.41	3.91	89.51
Grand total	87,794.44	72,029.38	21.89
Intensity per employee	157.90	149.13	5.88

As electricity consumption and the operations of fixed machines and equipment were the major sources of the Group’s carbon emission, the Group will continue to strengthen the energy-saving measures in its daily operations. We continued to encourage our staff to turn off idle appliances and adopt the use of energy-efficient appliances. The use of natural lighting in both our office and factory was also encouraged. Apart from these measures, the Group will conduct regular checks and maintenance of the fixed machines and equipment, so as to ensure their energy efficiency and minimize the production of greenhouse gases.

³ According to the 《二氧化碳排放核算方法及數據核査表》 published by the Ministry of Ecology and Environment, PRC on 15 May 2016, the power supply discharge coefficient of Jiangsu Province was set at 0.7498 kg/kWh.

⁴ The CO₂ emission factor from natural gas consumption was assumed to be as same as that from town gas, which was equivalent to 11.7 tons/million MJ, latest announced by The Hong Kong and China Gas Company Limited in their Sustainability Report 2018.

⁵ The data was not disclosed in the last year ESG report. In order to present a more comprehensive result, the Group included this data since this ESG report.

⁶ The per unit electricity consumption for processing fresh water and sewage in the PRC was assumed to be at 0.577 kWh and 0.28 kWh, which were as same as the case in Hong Kong according to the 2017/2018 Annual Report of Water Supplies Department and 2018/19 Sustainability Report of Drainage Services Department, HKSAR.

⁷ Adjustment had been made on GHG emissions from electricity used for processing sewage when compared with 402.81 tons disclosed in last year ESG report, due to the revisit of the data for a more accurate result.

Waste Management

Hazardous Waste

Unregulated disposal of hazardous waste can result in natural hazards undermining both the well-beings of the population and the nature. As our production involves the production of chemical waste, stringent waste management has always been one of our main objectives. During the Reporting year, the hazardous waste was under good control as we continued to adopt our well-developed waste management system. Hence, no significant amount of hazardous waste was disposed or emitted for the Reporting Year.

Sewage

Sewage was produced by the Group's daily production operations such as the processes of pickling and degreasing metals, as well as the operation of levelling machines and rollers. The Group placed significant emphasis on the reduction of sewage. Hence, a mature sewage-handling system with a closed-circuit had been adopted to purify sewage and convert it to clean water for reuse. As such, there was no significant amount of sewage disposed by the Group during the Reporting Year.

Acid Waste

During the metal pickling process, acid waste would be produced. During the Reporting Year, the Group had produced approximately 11,200 tons of acid waste, with an intensity of approximately 20 tons per employee. To ensure safe disposal of the acid waste, the Group had implemented two approaches. The first approach involved an internal neutralization system which neutralized the acid waste with alkali to produce pH-neutral sewage for further processing in the sewage-handling system. The Group closely monitored the neutralization process by frequent checks to ensure the inputted alkali is at a pH value of around 11, so that the system could operate as intended. After that, the sewage would be processed as mentioned above.

Alongside the internal neutralization system, the Group had also contracted with the qualified external waste management service providers to transfer the acid waste. The Group kept good record of the transfers. By monitoring the processes closely, the Group could ensure that they had been implemented effectively, as well as minimizing the possibility of irresponsible disposal of acid waste. With our efforts in regulating the handling of acid waste, no significant amount of acid waste was disposed by the Group, with all the acid waste being handled in appropriate manners following relevant laws and regulations, during the Reporting Year.

Gaseous Waste

As a range of chemicals were used in the production process, several kinds of gaseous hydrocarbons would be produced. To counter the gaseous waste produced, the Group had installed a hydrocarbon removal system to manage the production of hydrocarbons. The system analyzed gaseous waste production by automatically sketching various kinds of data graphs. Based on the data collected, the system then operated to remove any hydrocarbons produced by undergoing chemical reactions, physical removal or incineration. The system was proven to be effective as no significant amount of gaseous waste was emitted during the Reporting Year. To further strengthen its ability to remove gaseous waste, the Group will conduct frequent checks and maintenance of the system, so that it can operate as intended to minimize the emission of hydrocarbons to the atmosphere.

Other Hazardous Waste

Alongside the aforementioned wastes, there were other kinds of chemical wastes including oil, emulsion and sludge. Similar to the management process of the acid waste, the Group had contracted with qualified external waste management service providers to transfer the chemical waste. The Group also kept good records of the transfers, so as to ensure that processes had been implemented effectively, as well as to minimize the possibility of irresponsible disposal of hazardous waste. On top of this, the Group reported to the government the amount of the chemical waste transferred on a regular basis.

Policies of Hazardous Waste Management

With respect to the above hazardous wastes, the Group has implemented a number of policies to manage the storage, handling and transfer of the wastes in order to avoid any leakage of chemicals, in turn protecting both its employees and the environment. The hazardous wastes must:

1. be managed by authorized personnel;
2. be stored on a timely basis;
3. be collected, stored, transferred, used and handled in compliance with the laws and regulations; and
4. be recorded on the relevant register.

With all the above measures, safe and effective waste management can be implemented. The Group will strive to minimize the risk of natural hazards caused by unregulated disposal of the aforementioned wastes.

Non-Hazardous Waste

There were mainly two types of non-hazardous waste produced by the Group, namely inert waste, which was the remaining scrap of materials after metal processing, and paper waste. As the remaining materials were re-sold to third parties as raw materials for further production, only paper waste was disposed to the landfills. The total paper waste disposed by the Group during the Reporting Year amounted to approximately 3.06 tons (2018: 6.21 tons), with an intensity of approximately 5.51 kg per employee (2018: 13 kg per employee).

With our effort in waste reduction, the total paper waste produced during the Reporting Year has decreased significantly by 51%, with its corresponding intensity dropping by approximately 58%.

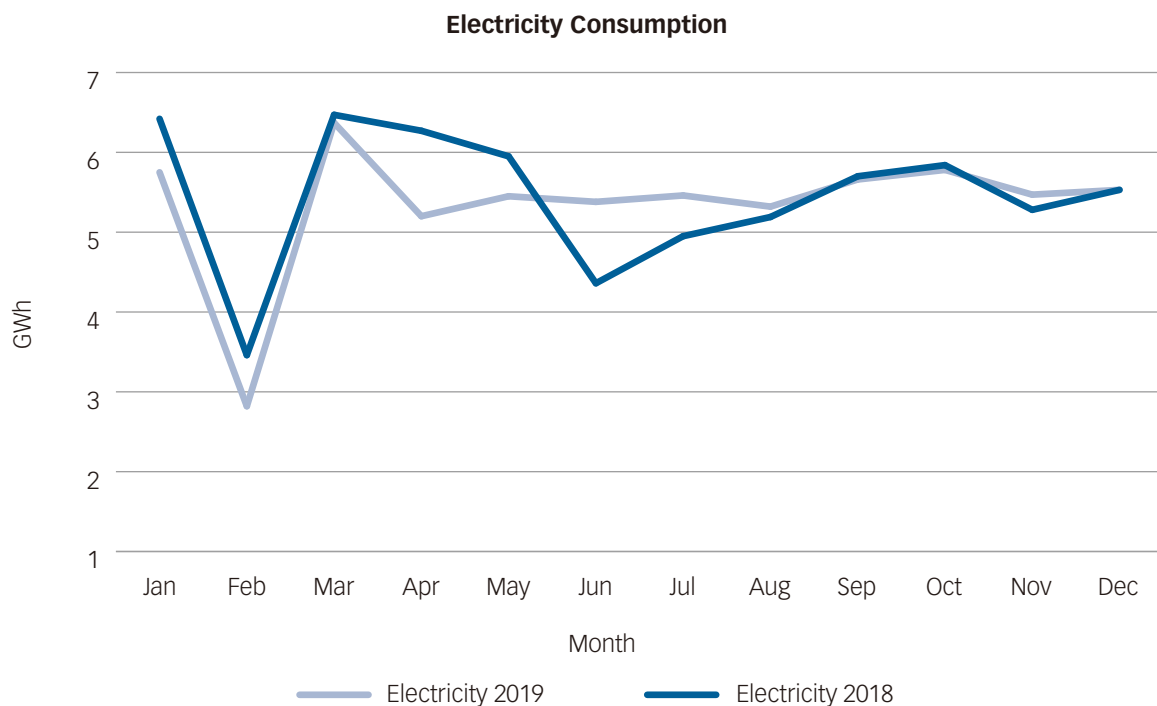
As logging is involved in the paper production process, it provokes both direct and indirect negative impacts on the environment. To advocate a paperless work environment, we encouraged our employees to use electronic systems and documents instead of printed documents. A collection box had also been placed in the office to collect paper-made products including paper boxes, envelopes and reusable paper for the recycling purposes. To further strengthen our reduction in paper waste, the Group will advocate natural resources conservation in a bid to remind our employees of the importance of paper waste reduction.

Use of Resources

The Group pledges to become an environmental-friendly and sustainable enterprise. We understand that the use of resources involves indirect emissions as well. As such, to reduce carbon emission and footprint, we have undertaken a range of carbon reduction measures in our daily operations.

Energy Consumption

During the Reporting Year, the total electricity consumption amounted to approximately 64.19 GWh (2018: 66.07 GWh), with an intensity of approximately 115 MWh per employee (2018: 137 MWh per employee). Compared with last year, the total electricity consumption has decreased by approximately 3%, with a reduction of 16% regarding the corresponding intensity. Meanwhile, the total natural gas consumption⁸ during the Reporting Year was approximately 147 GWh, with an intensity of approximately 264 MWh per employee.



The Group places much emphasis of energy conservation. While high energy consumption was unavoidable in production processes, the Group encouraged every employee to switch off all idle appliances and ensure that all electronic appliances had been switched off before they left the office. In the office and workshops, the Group also encouraged its staff to develop an energy-saving habit by using natural lighting whenever possible instead of electric lighting. Apart from these, the Group will purchase energy-efficient electronic appliances in the future, as well as upgrading current ones for energy-efficient alternatives in long run. We promise to put in more efforts in the aspect of energy conservation to further reduce our carbon footprint.

⁸ The data was not disclosed in the last year ESG report. In order to present a more comprehensive result, the Group included this data since this ESG report.

Water Consumption

Water is one of the most precious natural resources. High consumption of water could undermine the water resources available. In the meantime, processing of fresh water and sewage require electricity, indirectly causing more carbon emissions. Thus the Group took various measures actively to conserve water resources and reduce its carbon footprint. The Group consumed approximately 220,000 m³ (2018: 199,000 m³) water in its business operation during the Reporting Year, with a reduction of approximately 11% compared to the last year. Production processes contributed to most of our water consumption. During the Reporting Year, water consumption intensity was approximately 398 m³ water per employee (2018: 413 m³ water per employee), which saw a slight decrease of 4% compared to last year. As our water sources were from the governmental body as well as our own sewage purification system, there was no water supply issue identified for the Reporting Year.

Effective use of water can significantly whittle down the indirect consumption of electricity during water processing, as well as promoting water conservation. The Group encouraged its staff to save and use less water by posting labels in the office in a bid to raise the awareness of water conservation among the staff. We will also continue to monitor our use of water closely, so as to minimize the corresponding carbon footprint.

Packaging Materials

The Group's principal activities are the production and processing of galvanized steel products as components of household electronic appliances. Thus, no significant usage of packaging materials was identified for the Reporting Year.

The Environmental and Natural Resources

The Group values environmental sustainability and strives to incorporate it to every aspect of its business, so as to strike a balance between its business development and environmental conservation. As aforementioned, we have adopted a variety of environmental-friendly practices in different aspects of our business. Alongside these, the Group has also developed a wide range of written policies for its employees to comply with in order to minimize the negative impact on the environment.

At the design stage, we require the relevant departments to simplify production process and adopt non-polluting raw materials, which help to reduce potential pollutants and contribute to environmental sustainability. During the production stage, the usage of all kinds of polluting materials are recorded by the production teams as required by the Group's policy, as a reference for future decision-making. Strict guidelines regarding management and monitoring of pollutants produced are also adopted by the Group, which helps its employees to observe the relevant laws and regulations and promote corporate environmental responsibility.

Besides the above measures, the Group has continued to green its workshops and production sites by planting trees and sod. In short, the Group has integrated various means of environmental protection in order to cut down pollution and enhance its employees' environmental awareness in its business operations.

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

SECTION B: SOCIAL

Employment

Employees are of top priority to the Group as the most cherished assets. We value all our employees' contribution and dedication to our business development equally. We strive to grow with our employees as it is mutually beneficial to both the employees and our business development in the long run. Hence, we adopt employee-oriented approach in creating our workplace, as well as recruiting, training and retaining talents for our business development.

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

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

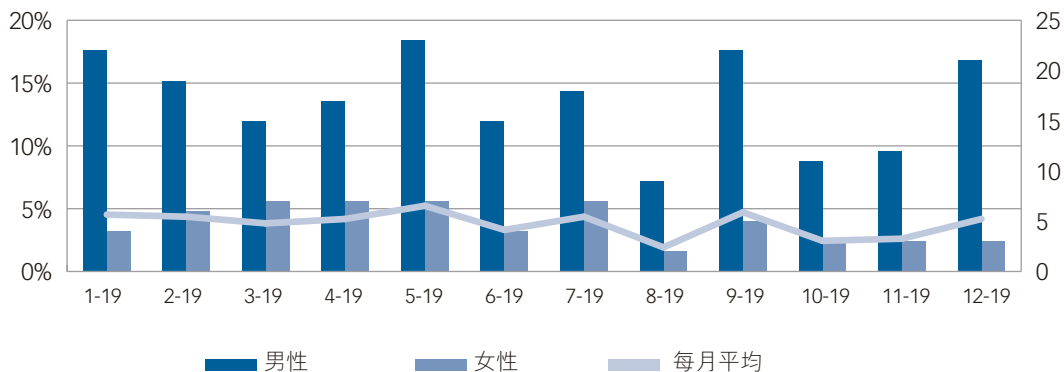
Employee Benefits

The Group has established a long-term favorable relationship with our employees. We offer competitive and attractive remuneration package, including on-the-job training, year-end bonus, and performance-based incentive bonus to our employees. Social Insurance and Housing Provident Fund are also provided to all employees by the Group. On top of that, continuous assessment of our employees are carried out based on their performance for the decision of salary increase, bonus amount and promotion in order to keep them up to the Group's standard and reward them for their contributions.

Attractive number of leaves are provided to our employees to ensure that they can enjoy work-life balance. Depending on the employment type, we offer our staff three different working-hour systems, namely normal office hour system, two-shift system and three-shift system, all of which can provide enough rest time for our employees. Besides workplace-related benefits, the Group regularly organizes different types of employee activities such as annual dinner, football matches and staff picnic to boost bonding between our employees. We believe that a harmonious workplace is beneficial to our employees' well-being, which in turn enhancing productivity at work.

For the Reporting Year, the Group's monthly average turnover rate was as low as approximately 3.8%, which can be attributed to our competitive employee benefits compared to the market standard.

Number of Turnover by Gender and Monthly Turnover Rate



Apart from our internal employment policies, the Group strictly observes the Labour Law of the People's Republic of China, Social Insurance Law of the People's Republic of China, Regulations on Management of Housing Provident Fund and other relevant laws and regulations which cover all employment protection and benefits.

Harmonious Workplace

In a bid to building a harmonious and inclusive workplace, as well as diversifying the backgrounds of our employees, we recruit talents based on experience, expertise and values, regardless of race, colour, creed, national origin, ancestry, sex, marital status, disability, religious or political affiliation, age or sexual orientation. Equal opportunities and diversity for all employees are highly valued by the Group.

As at 31 December 2019, we had a total of 556 employees of various ethnicities in China. Our employees' male-to-female ratio is 376:180, compared to last year's 321:162. We strive to cultivate a harmonious work environment for our employees and eliminate any forms of discrimination within the workplace.

Occupational Health and Safety

The Group is committed to safeguarding the safety, health and welfare of all its employees, workers, and general public who are likely to be affected by the business operations of the Group. To realize our commitment, we have implemented a range of policies with regard to workplace safety. The policies outlines the safety requirements and operating guidelines of every job position, as well as the handling and reporting protocols for accidents. Safety training and fire safety management protocols are also included in our policies.

The Group understands that preventive measures are far more important than reactive measures. Hence, we have implemented a number of measures to promote workplace safety among our employees, including posting safety requirements and guidelines regarding all production modes in every workshop.

We have also equipped our office and workshops with adequate resources for potential accidents. Sufficient fire equipment, such as fire extinguishers and fire hydrants, have been placed in both the office building and workshops. The equipment is under regular checks to ensure that they are in good condition. Fire and emergency drill are organised on a regular basis by the Group to familiarize our employees with the protocols for emergency situations. Performance of these drills are recorded for reviews and improvements. On top of these, safety training is also provided to our employees to ensure that they fully understand our safety policies and requirements, and to prevent them from getting injured.

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

1. 0 cases of serious injury or fatality;
2. 0 cases of serious fire accident or chemical incident; and
3. an injury rate of thousand employees per year being less than or equal to 3%.

During the Reporting Year, there were only 9 cases (2018: 11 cases) of injury with no serious injury or fatal cases reported within the Group. In these cases, 190 days (2018: 213.5 days) of working day were lost as we had pledged to provide sufficient days of sick leave for our employees to compensate for their injuries, and to allow sufficient time for recovery. The Group will conduct regular safety training to ensure employees' knowledge are up to standard and up-to-date. Frequent checks and maintenance of machineries will also be conducted to ensure that they are under good condition for employees to work with. As the Group places its employees' safety as top priority, it will continue to strive for a safe and healthy work environment for its employees and workers.

Development and Training

The Group understands that employee development is indispensable to the company's growth, hence the Group promises to offer sufficient and effective training to its employees. We also review the ability of employees of different levels so that our training can cater to their needs accordingly. In this way, our employees can grow with the Company hand in hand.

The Group offers a range of internal training and development to its employees to enhance their performance, professional skills and knowledge. External training courses and assessments initiated by our employees are also welcomed with subsidies and monetary rewards offered for any professional certificates obtained. The Group conducts performance appraisal on a regular basis to assess its employees' performance, skills and knowledge. If employees' performance is not on par with standard, additional training with assessments will be provided to keep our employees on track, which in turn helps to maintain the work quality. The Group also offers performance-based bonus and salary adjustment to its employees for rewarding their contributions to the Company based on satisfactory performance review results.

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

In the Reporting Year, our employees received a total of 463 days (2018: 112 days) of training, including professional skill training, leadership skill training and safety training. The Group will continue to observe the latest trends in the industry and government policies, so as to equip our staff with the necessary skills and knowledge accordingly and keep up with the standard.

Labor Standards

The Group strictly abides by the relevant laws and regulations with regard to child labour, minimum wage specified by the government, as well as Social Insurance and Housing Provident Fund scheme. We are delighted to announce that we did not encounter any major risks in human rights and employment matters so far. The Group guarantees that no employee is made to work against his/her will, or work under forced labour, or subject to coercion related to work. Recruitment of child labour is strictly prohibited. No employee under the age of 18 has been recruited in the Reporting Year. The Group adopts whistle-blowing mechanism, allowing employees to voice out difficulties or injustice they face, so that management can follow up on the matter.

Supply Chain Management

Being a group that manufactures and processes galvanized steel products, we recognize the importance of supply chain management of our major inventories – hot rolled coils and zinc blocks. During the supplier selection process, we take into consideration a range of criteria, including qualification, reputation, product quality, quality consistency and the ability to deliver on time. Only suppliers who pass our initial assessment can be added to our approved supplier list. As at 31 December 2019, we have developed long term relationships with 55 approved suppliers in the PRC, supplying both raw materials and auxiliary materials.

The Group conducts annual assessment of the approved suppliers to ensure that they are up to its required standards. We remove any suppliers with unsatisfactory results from the approved supplier list to ensure that our product quality can be maintained with the use of high-quality raw materials.

The Group recognizes the importance of delivering high quality products on time, in which having inventories delivered by the suppliers on a timely manner plays a significant role in our supply chain. To prevent the risk of inventory shortage caused by delayed delivery by the suppliers, we have stocked up our inventories to a safety level of 10,000 to 20,000 tons of raw materials. Apart from that, to minimize the risk of delayed delivery due to natural disasters and weather issues, we have intentionally diversified the major sources of supply to two separate suppliers of hot rolled coils, with one being in eastern PRC and one in northern PRC. With the above mitigating measures, the Group did not encounter any inventory shortage in the Reporting Year.

Being the midstream of the supply chain, not only do we focus on the upstream suppliers, but we also value the development of long-term relationship with our downstream customers. As mentioned, timely delivery is the fundamental to successful supply chain management. To enhance our effectiveness and efficiency in delivering products to our customers, the Group has adopted both motor and water transport depending on the travel distance. By adopting two different delivery means, it helps to reduce the operating costs and enhance the efficiency of delivery significantly.

Product Responsibility

Since the Group specializes on the manufacturing and processing of galvanized steel products, we are committed to complying with, and even exceeding relevant industry and safety standards as well as quality control, in a bid to safeguarding both the company reputation and public interests.

Quality Standards

The Group has set up a Quality Policy to commit ourselves to providing satisfactory services that meets our customers' needs. The policy covers the inspection of purchased materials, inspection of production processes and procedures of dealing with unsatisfactory products. We have continued to maintain our quality management system to high standard. With regard to our compliance with relevant requirements, the Group has been certified with ISO 9001: 2015 standard, which is applicable to the "Production of Cold Rolled Coils, Hot Zinc Coating Coils, and Color Coating Steel Coils".

Internal Inspection

The Group conducts 4 stages of internal inspection starting from i) purchased materials, ii) first stage of work-in-progress products, iii) second stage of work-in-progress products, and iv) finished goods. At every inspection stage, only the materials and products that have passed our assessment can be used for further processing. For materials and products below standard, the quality inspectors either consider re-work of the materials or disposal according to the guidelines of the management procedures. Rectification report is also prepared for every unqualified case encountered in order to analyze the cause and give recommendations for future improvements.

Customers' Response

The Group always treasures the customer relationship as an invaluable asset. We invite our customers to evaluate our performance regarding the product quality, product price and ability of on-time delivery. Most of our evaluation results are of satisfactory results. During the Reporting Year, there were 27 cases of complaints regarding product quality reported. We recorded the complaints and ways of handling complaints in detail, so that we could analyze the cause and prevent similar cases from repeating in the future. We will continue to keep good relationship with our customers and maintain our current practice of complaint management.

Relevant Laws and Regulations

Staying alert to compliance issues and inspecting deficiencies are essential as they prevent problems from escalating and undermining the Group's interests. Therefore, the Group keeps a close eye on the updates of relevant regulations and codes and revises its policies and operations accordingly, so as to prevent any malpractice. With our preventive measures and stringent quality control system, there was no non-compliance issue reported during the Reporting Year. We will strive to maintain the quality of our products for our precious customers.

Anti-corruption

The Group has established an “Anti-Bribery & Anti-Corruption Management Policy” which outlines the definition of bribery and corruption, the Group’s stance and the responsibilities of its employees pertinent to anti-corruption. The Group takes this matter in serious manner and prohibits its employees from accepting any forms of gifts and benefits without proper permission. All employees are required to sign a letter of commitment for performing duties with integrity, such that no bribe, fraud or money laundering should be performed for their personal gains at the expense of the Group’s interests. As at 31 December 2019, there was no concluded legal case regarding any forms of fraud brought against the Group or its employees.

The Group encourages its employees to report alleged malpractices or misconduct. We value and welcome our employees to report any suspected malpractices through various channels, while the management will take immediate action to investigate the issue. The Group promises to fully support the whistleblowers with the identity of the whistleblowers being well protected. We will also stay alert to corruption cases and specific practices pertinent to the industry, so that we can implement policies in response to those accordingly.

Community Investment

The Group has actively participated in the community investment. During the Reporting Year, 76 of our employees were engaged in a 4-hour charitable activity to raise funds for children living in poverty in PRC. We will continue to invest more resources and engage more employees in community investment, as well as investing our resources to areas other than poverty. By doing so, the Group hopes to encourage its employees to serve the community, while promoting corporate social responsibility and bringing positive impacts to the society.

REGULATORY COMPLIANCE

The Group did not encounter any cases of non-compliance with laws and regulations that pose significant impacts on the Group in the areas of emissions, employment, health and safety, labour standards, product responsibility and anti-corruption during the Reporting Year.

ENVIRONMENTAL DATA

Emissions Indicators

	Year ended 31 December 2019	Year ended 31 December 2018
Air Emissions		
Total air emissions	2,152.25 kg	1,923.09 kg
Air emission intensity	3.87 kg per employee	3.98 kg per employee
NO _x emission		
Fixed machines and equipment using natural gas	2,128.03 kg	1,905.72 kg
Mobile vehicles	12.46 kg	7.19 kg
SO _x emission		
Fixed machines and equipment using natural gas	10.59 kg	9.48 kg
Mobile vehicles	0.25 kg	0.17 kg
PM emission		
Fixed machines and equipment using natural gas	–	–
Mobile vehicles	0.92 kg	0.53 kg
Greenhouse Gas Emissions		
Total greenhouse gas emissions	87,794.44 tons	72,029.40 tons
Greenhouse gas emission intensity	157.90 tons per employee	149.13 tons per employee
CO ₂ emission		
Fixed machines and equipment using natural gas	33,272.49 tons	22,305.50 tons
Mobile vehicles	39.38 tons	27.19 tons
Electricity consumption	48,128.10 tons	49,541.76 tons
Natural gas consumption	6,193.51 tons	Not disclosed
Electricity used for processing fresh water	89.27 tons	80.25 tons
Electricity used for processing sewage	43.32 tons	40.28 tons
Paper waste disposal at landfills	14.69 tons	29.82 tons
Business air travel by employees	7.41 tons	3.91 tons
CH ₄ emission		
Fixed machines and equipment using natural gas	0.46 tons	0.31 tons
Mobile vehicles	0.09 tons	0.016 tons
N ₂ O emission		
Fixed machines and equipment using natural gas	–	–
Mobile vehicles	5.72 tons	0.36 tons

	Year ended 31 December 2019	Year ended 31 December 2018
Hazardous waste		
Total hazardous waste produced	11,235.57 tons acid waste	152.04 tons emulsion waste
Hazardous waste intensity	20.21 tons per employee	0.315 tons per employee
Non-hazardous waste		
Total non-hazardous waste produced (paper waste)	3.06 tons	6.21 tons
Non-hazardous waste intensity	5.51 kg per employee	13 kg per employee
Use of Resources Indicators		
Electricity consumption		
Total electricity consumption	64.19 GWh	66.07 GWh
Electricity consumption intensity	115 MWh per employee	137 MWh per employee
Natural gas consumption		
Total natural gas consumption	147 GWh	Not disclosed
Natural gas consumption intensity	264 MWh per employee	Not disclosed
Water Consumption		
Total water consumption	221,010 m ³	199,389 m ³
Water consumption intensity	397.50 m ³ per employee	412.81 m ³ per employee

SOCIAL DATA

Employment Indicators

	Year ended 31 December 2019	Year ended 31 December 2018
Employment		
Total number of employees	556	483
By Gender		
Male	376	321
Female	180	162
Employment turnover		
Total number of employee turnover	262	137
% of employee turnover (monthly average)	3.81%	2.17%
By Gender (monthly average)		
Male	2.96%	2.40%
Female	0.84%	1.71%
Health and Safety Indicators		
Number of reported injuries	9	11
Number of lost days	190 days	213.5 days
Development and Training Indicators		
Total number of days of internal staff training	463 days	112 days
Supply Chain Indicators		
Total number of approved suppliers	55 in PRC	46 in PRC
Product Responsibility Indicators		
Total number of complaints received	27	36
Anti-corruption Indicators		
Number of conducted legal cases regarding corruption	–	–
Community Indicators		
Community Investment		
Corporate charitable donation	–	HK\$1,000,000
Employee volunteering		
Number of employee volunteers	76	–
Total number of service hours	4 hours	–

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of KangLi International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of KangLi International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 127, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

The notes on pages 70 to 127 form part of these financial statements.

KEY AUDIT MATTERS (CONTINUED)

Valuation of inventories

Refer to Note 13 to the consolidated financial statements and the accounting policies in Note 2(i)(i).

The Key Audit Matter

At 31 December 2019, inventories of the Group comprised raw materials and consumables, and finished goods. The carrying amount of the Group's raw materials and finished goods at 31 December 2019 amounted to RMB335,512,000 which represented 23.8% of the Group's total assets.

The Group's inventories are valued at the lower of cost and net realisable value. The net realisable value is determined by management on an individual item basis by taking into account the estimated selling prices of the Group's steel products, the estimated costs of completion of work-in-progress at the reporting date and the estimated costs necessary to make the sale.

The selling prices of the Group's steel products are mostly affected by the price volatility of raw materials, particularly if the market price of raw materials decline significantly after the reporting date, the net realisable value of the Group's raw materials and finished goods may be less than the cost.

We identified the valuation of inventories as a key audit matter because of its significance to the Group's total assets, and because determining the net realisable value involves significant management judgement and estimation, which can be inherently subjective and increase the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess valuation of inventories included the following:

- obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls over inventory management;
- obtaining an understanding of management's basis of estimating the net realisable value and the key judgement involved in estimating the future selling prices of steel products;
- evaluating the calculations made by management in arriving at the net realisable values of the inventories by assessing the reasonableness of the estimated selling price of the steel products with reference to the market price of raw materials and the accuracy of the costs of completion and the selling costs; and
- comparing the carrying values of finished goods, on a sample basis, to their selling prices as indicated in sales invoices subsequent to the reporting date to evaluate management's estimates of net realisable value.

KEY AUDIT MATTERS (CONTINUED)

Loss allowance for trade receivables

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

The Key Audit Matter

At 31 December 2019, the Group's gross trade receivables totalled RMB159,456,000. Loss allowance of RMB648,000 was recorded.

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

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

How the matter was addressed in our audit

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

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

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019
(Expressed in Renminbi ("RMB"))

	Note	2019 RMB'000	2018 RMB'000 (Note)
Revenue	4	1,495,630	1,548,276
Cost of sales		(1,396,105)	(1,417,516)
Gross profit	4(b)	99,525	130,760
Other income	5	5,069	4,094
Selling expenses		(42,288)	(39,871)
Administrative expenses		(17,409)	(15,824)
Profit from operations		44,897	79,159
Finance costs	6(a)	(21,428)	(15,139)
Costs incurred in connection with the initial listing of the Company's shares		–	(19,365)
Profit before taxation	6	23,469	44,655
Income tax	7	1,229	6,266
Profit attributable to equity shareholders of the Company for the year		24,698	50,921
Earnings per share			
Basic and diluted (RMB)	10	0.04	0.11

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 2(c).

The notes on pages 70 to 127 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 22(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019
(Expressed in RMB)

	2019 RMB'000	2018 RMB'000 (Note)
Profit for the year	24,698	50,921
Other comprehensive income for the year (after tax):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation into presentation currency of the Group	317	(385)
Total comprehensive income for the year	25,015	50,536

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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019
(Expressed in RMB)

	Note	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	11	305,316	307,108
Lease Prepayments	11	–	36,411
		305,316	343,519
Current assets			
Inventories	13	335,512	341,151
Trade and bills receivables	14	489,461	573,172
Prepayments, deposits and other receivables	15	94,955	19,706
Cash at bank and on hand	16	184,216	154,625
		1,104,144	1,088,654
Current liabilities			
Trade and bills payables	17	345,750	439,034
Accrued expenses and other payables	18	23,818	14,925
Bank and other loans	19	329,769	286,000
Lease liabilities	21	2,082	–
Current taxation	20(a)	40,813	36,891
		742,232	776,850
Net current assets		361,912	311,804
Total assets less current liabilities		667,228	655,323
Non-current liabilities			
Other payables		–	35,010
Lease liabilities	21	36,028	–
Deferred tax liabilities	20(b)	16,489	21,050
		52,517	56,060
NET ASSETS		614,711	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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

Consolidated Statement of Financial Position
at 31 December 2019 (continued)
(Expressed in RMB)

	Note	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000 (Note)
CAPITAL AND RESERVES	22		
Share capital		534	534
Reserves		614,177	598,729
TOTAL EQUITY		614,711	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 2(c).

Approved and authorised for issue by the board of directors on 30 March 2020.

Liu Ping
Chairman

Lu Xiaoyu
Director

The notes on pages 70 to 127 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019
(Expressed in RMB)

	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Other reserve	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Total
	RMB'000 Note 22(b)	RMB'000 Note 22(d)	RMB'000 Note 22(e)	RMB'000 Note 22(f)	RMB'000 Note 22(g)	RMB'000 Note 22(h)	RMB'000 (Note)	RMB'000
Balance at 1 January 2018	-	-	250,000	107,021	5,944	-	53,479	416,444
Changes in equity for the year ended 2018:								
Profit for the year	-	-	-	-	-	-	50,921	50,921
Other comprehensive income for the year	-	-	-	-	-	(385)	-	(385)
Total comprehensive income	-	-	-	-	-	(385)	50,921	50,536
Issuance of shares	-	72,248	-	-	-	-	-	72,248
Effect on equity arising from the completion of a group reorganisation	-	-	(70,000)	-	-	-	-	(70,000)
Capitalisation issue	396	(396)	-	-	-	-	-	-
Issuance of shares by initial public offering	138	129,897	-	-	-	-	-	130,035
Appropriation to reserve	-	-	-	-	6,738	-	(6,738)	-
	534	201,749	(70,000)	-	6,738	-	(6,738)	132,283
Balance at 31 December 2018	534	201,749	180,000	107,021	12,682	(385)	97,662	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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019 (continued)
(Expressed in RMB)

	Attributable to equity shareholders of the Company							
	Share capital	Share premium	Other reserve	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Total
	RMB'000 Note 22(b)	RMB'000 Note 22(d)	RMB'000 Note 22(e)	RMB'000 Note 22(f)	RMB'000 Note 22(g)	RMB'000 Note 22(h)	RMB'000 (Note)	RMB'000
Balance at 1 January 2019	534	201,749	180,000	107,021	12,682	(385)	97,662	599,263
Changes in equity for the year ended 2019:								
Profit for the year	-	-	-	-	-	-	24,698	24,698
Other comprehensive income for the year	-	-	-	-	-	317	-	317
Total comprehensive income	-	-	-	-	-	317	24,698	25,015
Dividends approved in respect of the previous year (Note 22(c)(ii))	-	(9,567)	-	-	-	-	-	(9,567)
Appropriation to reserve	-	-	-	-	2,052	-	(2,052)	-
	-	(9,567)	-	-	2,052	-	(2,052)	(9,567)
Balance at 31 December 2019	534	192,182	180,000	107,021	14,734	(68)	120,308	614,711

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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019
(Expressed in RMB)

	Note	2019 RMB'000	2018 RMB'000 (Note)
Operating activities			
Profit before taxation		23,469	44,655
Adjustments for:			
Depreciation	6(c)	48,984	52,612
Net loss on disposal of property, plant and equipment	5	511	27
Finance costs	6(a)	21,428	15,139
Interest income	5	(1,600)	(292)
Changes in working capital:			
Decrease/(Increase) in inventories		5,639	(74,685)
Decrease/(Increase) in trade and bills receivables		83,711	(74,059)
(Increase)/decrease in prepayments, deposits and other receivables		(75,249)	103,785
(Decrease)/increase in trade and bills payables		(93,284)	30,833
Decrease in accrued expenses		(3,651)	(9,718)
Net (increase)/decrease on restricted bank deposits		(43,915)	2,835
Cash (used in)/generated from operations		(33,957)	91,132
Income tax refunded/(paid)	20(a)	590	(7,893)
Net cash (used in)/generated from operating activities		(33,367)	83,239
Investing activities			
Payments for the purchase of property, plant and equipment		(9,809)	(18,926)
Proceeds from disposal of property, plant and equipment		180	129
Disposal of a subsidiary, net of cash disposed of		–	8,000
Interest received		1,600	292
Net cash used in investing activities		(8,029)	(10,505)
Financing activities			
Proceeds from new bank and other loans	16(b)	459,769	451,000
Repayment of bank and other loans	16(b)	(416,000)	(471,989)
Proceeds from issuance of shares		–	72,248
Proceeds from issuance of shares by initial public offering, net of share issuance expenses		–	130,035
Payments arising from reorganisation underwent by the Group	22(e)	–	(70,000)
Capital element of lease rentals paid	16(b)	(279)	–
Interest element of lease rentals paid	16(b)	(1,506)	–
Net increase/(decrease) in amounts due to related parties	16(b)	11,637	(52,501)
Dividends paid to equity shareholders of the Company	22(c)	(9,567)	–
Interest paid	16(b)	(19,607)	(15,139)
Net cash generated from financing activities		24,447	43,654

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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2019 (continued)
(Expressed in RMB)

	Note	2019 RMB'000	2018 RMB'000 (Note)
Net (decrease)/increase in cash and cash equivalents		(16,949)	116,388
Cash and cash equivalents at 1 January	16(a)	144,940	28,782
Effect of foreign exchange rate changes		2,625	(230)
Cash and cash equivalents at 31 December	16(a)	130,616	144,940

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 2(c).

The notes on pages 70 to 127 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 CORPORATE INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2019 comprise the Group.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

(c) Changes in accounting policies

The IASB has issued a 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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:

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(ii) Lessee accounting and transitional impact

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 which are exempted. For an explanation of how the Group applies lessee accounting, see Note 2(g).

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. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.9%.

To ease the transition to IFRS 16, 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.

The following table reconciles the operating lease commitments as disclosed in Note 24(b) at 31 December 2018 to the opening balance for lease liabilities recognised at 1 January 2019:

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	220
Less: commitments relating to short-term leases exempted from capitalisation:	(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
Add: other payables in connection with lease prepayments recognised at 31 December 2018	36,411
Total lease liabilities recognised at 1 January 2019 (Note 21)	36,594

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(ii) Lessee accounting and 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 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 right-of-use assets and lease liabilities 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 (Note 11)	307,108	183	36,411	343,702
Lease Prepayments (Note 11)	36,411	–	(36,411)	–
Total non-current assets	343,519	183	–	343,702
Accrued expenses and other payables (Note 18)	14,925	–	(1,401)	13,524
Lease liabilities (current) (Note 21)	–	94	1,401	1,495
Current liabilities	776,850	94	–	776,944
Net current assets	311,804	(94)	–	311,710
Total assets less current liabilities	655,323	89	–	655,412
Other payables (Note 21)	35,010	–	(35,010)	–
Lease liabilities (non-current) (Note 21)	–	89	35,010	35,099
Total non-current liabilities	56,060	89	–	56,149
Net assets	599,263	–	–	599,263

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(iii) Impact on the financial results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities at 1 January 2019, the Group as a lessee is required to recognise interest expenses accrued on the outstanding balance of the lease liabilities, and the depreciation of the right-of-use assets, 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 year.

In the consolidated cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see Note 16(b)). 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 consolidated cash flow statement (see Note 16(c)).

The following tables give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated 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 in 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) RMB'000	Add back: IFRS 16 depreciation and interest expenses (B) RMB'000	Deduct: Estimated amounts related to operating leases as if under IAS 17 (Note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Financial results impacted by the adoption of IFRS 16:					
Profit from operations	44,897	1,694	(1,785)	44,806	79,159
Finance costs	(21,428)	1,821	–	(19,607)	(15,139)
Profit before taxation	23,469	3,515	(1,785)	25,199	44,655
Profit for the year	24,698	3,515	(1,785)	26,428	50,921

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (Continued)

IFRS 16, Leases (Continued)

(iii) Impact on the financial results and cash flows of the Group (Continued)

	2019			2018
	Amounts reported under IFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under IAS 17 (Notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under IAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under IAS 17 RMB'000
Line items in the consolidated cash flow statement impacted by the adoption of IFRS 16:				
Cash (used in)/generated from operations	(33,957)	(1,785)	(35,742)	91,132
Net cash (used in)/generated from operating activities	(33,367)	(1,785)	(35,152)	83,239
Capital element of lease rentals paid	(279)	279	–	–
Interest element of lease rentals paid	(1,506)	1,506	–	–
Net cash generated from financing activities	24,447	1,785	26,232	43,654

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 (used in)/generated from operating activities and net cash generated from financing activities as if IAS 17 still applied.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries

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

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

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

(e) Property, plant and equipment

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

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

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

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

	Estimated useful lives
Plant and buildings	35 years
Machinery and equipment	3–15 years
Motor vehicles and other equipment	3–5 years
Right-of-use assets	Over the term of the lease

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Research and development expenditures

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

(g) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. 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.

As a lessee

(A) Policy applicable from 1 January 2019

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.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. 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 (see Note 2(e) and 2(h)(ii)).

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.

The Group presents right-of-use assets in 'property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Leased assets (Continued)

As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases.

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

(h) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

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

Measurement of ECLs

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Measurement of ECLs (Continued)

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

Significant increases in credit risk

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

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

- failure to make payments on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

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

Basis of calculation of interest income

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Basis of calculation of interest income (Continued)

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

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

Write-off policy

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

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

(ii) Impairment of non-current assets

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

- property, plant and equipment, including right-of-use assets; and
- investment in a subsidiary in the Company's statement of financial position.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(ii) Impairment of non-current assets (Continued)

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with IAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Note 2(h)(i)).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories and other contract costs

(i) Inventories

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

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

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

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

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

(ii) Other contract costs

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Inventories and other contract costs (Continued)

(ii) Other contract costs (Continued)

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

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

(j) Contract assets and contract liabilities

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

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

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

(k) Trade and other receivables

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

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

(l) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Trade and other payables

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

(n) Interest-bearing borrowings

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

(o) Employee benefits

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

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

(ii) Termination benefits

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

(p) Income tax

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (Continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Revenue and other income

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

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

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

(i) Sale of goods

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

(ii) Interest income

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

(iii) Government grants

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Translation of foreign currencies

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

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

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

(t) Borrowing costs

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

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

(u) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of the Group's parent.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Related parties (Continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(v) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

The significant sources of estimation uncertainty are as follows:

(a) Impairment losses for non-current assets

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

(b) Expected credit loss for receivables

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

(c) Depreciation

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

(d) Determining the lease term

As explained in policy Note 2(g), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group’s operations. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group’s control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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:

	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	89,391	84,478
– Sales of hot-dipped unpainted galvanised steel products	969,961	1,154,561
– Sales of hot-dipped painted galvanised steel products	436,278	309,237
	1,495,630	1,548,276

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

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

	2019 RMB'000	2018 RMB'000
Customer A	243,391	199,443
Customer B	174,382	167,053

Details of concentration of credit risk arising from the Group's customers are set out in Note 23(a).

(b) Segment reporting

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

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

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the years ended 31 December 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 years ended 31 December 2019 and 2018 is set out below:

	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	89,391	969,961	436,278	1,495,630
Reportable segment gross profit	3,865	45,635	50,025	99,525

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

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(c) Geographic information

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

	2019 RMB'000	2018 RMB'000
The People's Republic of China (the "PRC")	1,429,311	1,442,033
South Korea	54,982	94,674
Other countries	11,337	11,569
	1,495,630	1,548,276

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

5 OTHER INCOME

	2019 RMB'000	2018 RMB'000
Interest income	1,600	292
Net foreign exchange gain/(loss)	2,288	(627)
Government grants	1,526	4,224
Net loss on disposal of property, plant and equipment	(511)	(27)
Others	166	232
	5,069	4,094

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	2019 RMB'000	2018 RMB'000 (Note)
Interest expenses on bank and other loans	19,607	15,139
Interest expenses on lease liabilities	1,821	–
	21,428	15,139

Note: The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the comparative information is not restated. See Note 2(c).

No borrowing costs have been capitalised for the year ended 31 December 2019 (2018: RMBNil).

(b) Staff costs#

	2019 RMB'000	2018 RMB'000
Salaries, wages and other benefits	45,565	42,120
Contributions to defined contribution retirement plans	3,295	3,013
	48,860	45,133

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.

6 PROFIT BEFORE TAXATION (CONTINUED)

(c) Other items

	2019 RMB'000	2018 RMB'000
Depreciation (Note 11) [#]		
– owned property, plant and equipment (Note)	47,290	52,612
– right-of-use assets (Note)	1,694	–
Impairment losses on trade receivables (Note 23(a))	224	403
Minimum lease payments for leases previously classified as operating leases under IAS 17 (Note)	–	907
Operating lease expenses relating to short-term leases	1,301	–
Auditors' remuneration		
– audit services	1,670	1,600
– services in connection with the initial listing of the Company's shares	–	2,100
Cost of inventories (Note 13(b)) [#]	1,396,105	1,417,516

Note: The Group has initially applied IFRS 16 using the modified retrospective approach 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. The Group's land use rights which were previously presented as lease prepayments are identified as right-of-use assets. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term and amortisation of lease prepayments as previously presented in 2018. Under this approach, the comparative information is not restated. See Note 2(c).

[#] Cost of inventories includes RMB83,768,000 (2018: RMB84,519,000) relating to staff costs and depreciation expenses, which amount is also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2019 RMB'000	2018 RMB'000
Current taxation (Note 20(a))		
Provision of PRC Corporate Income Tax for the year	4,942	14,375
Over-provision in respect of prior years	(3,021)	–
	1,921	14,375
Provision of Hong Kong Profits Tax for the year	1,411	–
	3,332	14,375
Deferred taxation (Note 20(b))		
Origination and reversal of temporary differences	(4,561)	(5,028)
Withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	–	1,063
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	(16,676)
	(4,561)	(20,641)
	(1,229)	(6,266)

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

	2019 RMB'000	2018 RMB'000
Profit before taxation	23,469	44,655
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned (Notes (i), (ii) and (iii))	5,939	13,439
Tax effect of non-deductible expenses	975	2,180
Tax concessions (Notes (ii) and (iv))	(5,122)	(6,272)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	–	(16,676)
Tax effect of the withholding tax in connection with the retained profits to be distributed by a subsidiary of the Group	–	1,063
Over-provision in respect of prior years (Note (v))	(3,021)	–
Actual tax expense	(1,229)	(6,266)

7 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

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

Notes:

- (i) The Company and a subsidiary of the Group incorporated in the British Virgin Islands are not subject to any income tax pursuant to the rules and regulations of their respective jurisdictions of incorporation.
- (ii) The Company and the subsidiary of the Group incorporated in Hong Kong are subject to Hong Kong Profits Tax rate according to the two-tiered profits tax rate regime from the year of assessment 2018/19 onwards. The profits tax rate for the first HK\$2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a rate of 16.5%.
- (iii) The subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the year ended 31 December 2019 (2018: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of "High and New Technology Enterprise" ("HNTE"), which entitles the qualified companies to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was qualified as a HNTE and is entitled to the preferential tax rate of 15% for the three calendar years ended/ending 31 December 2018, 2019 and 2020.
- (v) According to the relevant tax rules in the PRC, qualified research and development costs are allowed for bonus deduction for income tax purpose, i.e an additional 75% of such costs could be utilised as additional deductible expenses. The over-provision of current taxation for the year ended 31 December 2019 was mainly attributable to the subsidiary of the Group obtained approval from the relevant tax authority for bonus deduction for research and development costs incurred in 2018.

8 DIRECTORS' EMOLUMENTS

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

	2019				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Mei Zefeng	–	–	–	–	–
Ms Liu Ping	106	585	118	8	817
Mr Zhang Zhihong	106	429	193	8	736
Ms Lu Xiaoyu	106	190	13	7	316
Mr Xu Chao	106	109	26	8	249
Independent non-executive directors					
Mr Li Yuen Fei Roger	263	–	–	–	263
Mr Cao Baozhong	106	–	–	–	106
Mr Yang Guang	106	–	–	–	106
	899	1,313	350	31	2,593
	2018				
	Directors' fees RMB'000	Salaries, allowances and benefits in-kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Mr Mei Zefeng	–	–	–	–	–
Ms Liu Ping	146	467	198	8	819
Mr Zhang Zhihong (Note (i))	110	476	34	8	628
Ms Lu Xiaoyu (Note (i))	47	224	19	6	296
Mr Xu Chao (Note (i))	33	179	23	8	243
Independent non-executive directors					
Mr Li Yuen Fei Roger (Note (ii))	49	–	–	–	49
Mr Cao Baozhong (Note (ii))	12	–	–	–	12
Mr Yang Guang (Note (ii))	12	–	–	–	12
	409	1,346	274	30	2,059

Notes:

- (i) On 18 May 2018, Mr Zhang Zhihong, Ms Lu Xiaoyu and Mr Xu Chao were appointed as executive directors of the Company.
- (ii) On 25 October 2018, Mr Li Yuen Fai Roger, Mr Cao Baozhong and Mr Yang Guang were appointed as independent non-executive directors of the Company.

No emoluments were waived by any directors in 2019. For the year ended 31 December 2018, Mr Mei Zefeng waived director's remuneration of HK\$139,375.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2018: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2018: three) individuals are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and other emoluments	2,091	3,515
Retirement scheme contributions	24	24
	2,115	3,539

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

	2019 Number of individuals	2018 Number of individuals
HK\$Nil – HK\$1,000,000	3	1
HK\$1,000,001 – HK\$1,500,000	–	2

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2019 is calculated based on the profit attributable to the equity shareholders of the Company of RMB24,698,000 and the weighted average of 606,252,000 ordinary shares in issue during the year ended 31 December 2019.

The basic earnings per share for the year ended 31 December 2018 is based on the profit attributable to the equity shareholders of the Company of RMB50,921,000 and the weighted average of 468,014,000 ordinary shares in issue during the year ended 31 December 2018.

10 EARNINGS PER SHARE (CONTINUED)

(a) Basic earnings per share (Continued)

The calculation of the weighted average number of ordinary shares for the years ended 31 December 2019 and 2018 are as follows:

	2019	2018
Issued ordinary shares at 1 January	606,252,000	100
Issuance of shares prior to the initial listing of the Company's shares	–	100
Effect of capitalisation issue on the completion of the initial public offering	–	449,999,800
Effect of shares issued by initial public offering on 19 November 2018	–	17,671,000
Effect of shares issued by the exercise of an over-allotment option on 12 December 2018	–	343,000
Weighted average number of ordinary shares at 31 December	606,252,000	468,014,000

(b) Diluted earnings per share

There were no dilutive potential shares outstanding during the years ended 31 December 2019 and 2018.

11 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of the carrying amount

	Plant and buildings RMB'000	Machinery and equipment RMB'000	Motor vehicles and other equipment RMB'000	Construction in progress RMB'000	Right- of-use assets RMB'000	Total RMB'000
Cost:						
At 1 January 2018	110,088	711,182	18,356	297	–	839,923
Additions	2,793	4,107	4,960	7,066	–	18,926
Transfer in/(out)	–	1,901	–	(1,901)	–	–
Disposals	–	(2,000)	(1,133)	–	–	(3,133)
At 31 December 2018	112,881	715,190	22,183	5,462	–	855,716
Impact on initial application of IFRS 16 (Note)	–	–	–	–	36,594	36,594
At 1 January 2019	112,881	715,190	22,183	5,462	36,594	892,310
Additions	571	1,755	2,765	4,718	1,480	11,289
Transfer in/(out)	–	4,044	–	(4,044)	–	–
Disposals	(600)	(4,824)	(304)	–	–	(5,728)
At 31 December 2019	112,852	716,165	24,644	6,136	38,074	897,871
Accumulated depreciation:						
At 1 January 2018	(27,196)	(461,628)	(11,549)	–	–	(500,373)
Charge for the year	(3,045)	(45,762)	(2,405)	–	–	(51,212)
Written back on disposals	–	1,900	1,077	–	–	2,977
At 31 December 2018 and 1 January 2019	(30,241)	(505,490)	(12,877)	–	–	(548,608)
Charge for the year	(2,712)	(41,496)	(3,082)	–	(1,694)	(48,984)
Written back on disposals	328	4,420	289	–	–	5,037
At 31 December 2019	(32,625)	(542,566)	(15,670)	–	(1,694)	(592,555)
Carrying amount:						
At 31 December 2019	80,227	173,599	8,974	6,136	36,380	305,316
At 31 December 2018	82,640	209,700	9,306	5,462	–	307,108

Note: 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. See Note 2(c).

- (b) Certain of the Group's property, plant and equipment are pledged as collaterals for the Group's short-term bank and other loans. Further details are set out in Note 19.

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Right-of-use assets

- (i) The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	At 31 December 2019 RMB'000	At 1 January 2019 RMB'000
Land use rights (Note)	35,011	36,411
Office premises	1,369	183
	36,380	36,594

Note: Land use rights represent premiums paid by the Group for land located in the PRC. These land use rights are with lease periods of 30 years. Land use rights are presented as "lease prepayments" in 2018, and with the adoption of IFRS 16, they are presented as right-of-use assets under "property, plant and equipment" at 1 January 2019. The movements of lease prepayments in 2018 were as follows:

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

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(c) Right-of-use assets (Continued)

(ii) The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019 RMB'000	2018 RMB'000 (Note)
Depreciation charge of right-of-use assets by class of underlying asset:		
– Land use rights	1,400	–
– Office premises	294	–
	1,694	–
Interest expenses on lease liabilities (Note 6(a))	1,821	–
Operating lease expenses relating to short-term leases (Note 6(c))	1,301	–
Minimum lease payments for leases previously classified as operating leases under IAS 17 (Note 6(c))	–	907

Note: The Group has initially applied IFRS 16 using the modified retrospective approach 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. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See Note 2(c).

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 16(c) and 21, respectively.

12 INVESTMENTS IN SUBSIDIARIES

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

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

Notes:

- (i) The English translation of the name is for identification only. The official name of this entity is in Chinese.
- (ii) This entity was registered as a limited liability company under the laws and regulations in the PRC.
- (iii) These companies are limited liability companies incorporated outside of the PRC.

13 INVENTORIES

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Raw materials and consumables	156,751	145,612
Finished goods	178,761	195,539
	335,512	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:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Carrying amounts of inventories sold	1,396,105	1,417,516

14 TRADE AND BILLS RECEIVABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Trade receivables, net of loss allowance	158,808	154,533
Bills receivables (Note 14(c))	330,653	418,639
	489,461	573,172

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

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

14 TRADE AND BILLS RECEIVABLES (CONTINUED)

(a) Ageing analysis

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 month	118,969	132,980
1 to 3 months	18,999	16,185
3 to 6 months	20,680	2,058
Over 6 months	160	3,310
	158,808	154,533

Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 23(a).

- (b) At 31 December 2019, the Group has discounted certain of the bank acceptance notes it received from customers at banks, and endorsed certain of the bank acceptance notes it received from customers to its suppliers and other creditors for settlement of the Group's trade and other payables on a full recourse basis. Upon the above discounting or endorsement, the Group has derecognised the bills receivables in their entirety. These derecognised bank acceptance notes have maturity dates of less than six months from each of the end of the reporting period. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these notes and has discharged its obligation of the payables to its suppliers and other creditors. The Group considered the issuing banks of these notes are of high credit standings and non-settlement of these notes by the issuing banks on maturity is highly unlikely. At 31 December 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 RMB261,382,000 (2018: RMB262,525,000).
- (c) At 31 December 2019, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB172,137,000 (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 RMB172,137,000 (2018: RMB340,514,000).

At 31 December 2019, bills receivables of the Group with carrying amount of RMB4,000,000 (2018: RMB27,840,000) were pledged as collaterals for bills issued by the Group (see Note 17).

15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Receivables from sales of scrap materials to related parties	–	4,445
Advances to staff	1,105	573
Others	2,123	1,240
Financial assets measured at amortised cost	3,228	6,258
Prepayments and deposits:		
– Prepayments for purchase of raw materials	87,884	8,412
– Prepayments for utilities expenses	3,843	5,036
	91,727	13,448
	94,955	19,706

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

16 CASH AT BANK AND ON HAND AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Cash at bank	183,713	154,052
Cash on hand	503	573
Cash at bank and on hand included in the consolidated statement of financial position	184,216	154,625
Less: restricted deposits (Note (i))	53,600	9,685
Cash and cash equivalents included in the consolidated cash flow statement	130,616	144,940

The Group's operations 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 17).

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

(b) Reconciliation of liabilities arising from financing activities

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

	Bank and other loans RMB'000 (Note 19)	Interest payable RMB'000	Dividends payable RMB'000	Amounts due to related parties RMB'000 (Note 18)	Lease liabilities RMB'000 (Note 21)	Total RMB'000
At 31 December 2018	286,000	-	-	-	-	286,000
Impact on initial application of IFRS 16 (Note)	-	-	-	-	36,594	36,594
At 1 January 2019	286,000	-	-	-	36,594	322,594
Changes from financing cash flows:						
Proceeds from new bank and other loans	459,769	-	-	-	-	459,769
Repayment of bank and other loans	(416,000)	-	-	-	-	(416,000)
Capital element of lease rentals paid	-	-	-	-	(279)	(279)
Interest element of lease rentals paid	-	-	-	-	(1,506)	(1,506)
Net increase in amounts due to related parties	-	-	-	11,637	-	11,637
Dividends paid to equity shareholders of the Company	-	-	(9,567)	-	-	(9,567)
Interest paid	-	(19,607)	-	-	-	(19,607)
Total changes from financing cash flows	43,769	(19,607)	(9,567)	11,637	(1,785)	24,447
Other changes:						
Increase in lease liabilities from entering into new leases during the year	-	-	-	-	1,480	1,480
Finance costs (Note 6(a))	-	19,607	-	-	1,821	21,428
Dividends approved in respect of the previous year (Note 22(c))	-	-	9,567	-	-	9,567
Total other changes	-	19,607	9,567	-	3,301	32,475
At 31 December 2019	329,769	-	-	11,637	38,110	379,516

Note: The Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. See Note 2(c).

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

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

	Bank and other loans RMB'000 (Note 19)	Interest payable RMB'000	Amounts due to related parties RMB'000 (Note 18)	Total RMB'000
At 1 January 2018	306,989	–	52,501	359,490
Changes from financing cash flows:				
Proceeds from new bank and other loans	451,000	–	–	451,000
Repayment of bank and other loans	(471,989)	–	–	(471,989)
Net decrease in amounts due to related parties	–	–	(52,501)	(52,501)
Interest paid	–	(15,139)	–	(15,139)
Total changes from financing cash flows	(20,989)	(15,139)	(52,501)	(88,629)
Other changes:				
Finance costs (Note 6(a))	–	15,139	–	15,139
At 31 December 2018	286,000	–	–	286,000

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019 RMB'000	2018 RMB'000 (Note)
Within operating cash flows – lease rentals paid	1,301	2,307
Within financing cash flows – lease rentals paid	1,785	–
	3,086	2,307

Note: As explained in the note to Note 16(b), the adoption of IFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

17 TRADE AND BILLS PAYABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Trade and bills payables:		
– Trade payables	80,721	380,436
– Bills payables	248,010	52,155
	328,731	432,591
Contract liabilities:		
– Receipts in advance from customers	17,019	6,443
	345,750	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, is as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Within 3 months	206,280	228,147
Between 3 to 6 months	112,278	193,043
Over 6 months	10,173	11,401
	328,731	432,591

18 ACCRUED EXPENSES AND OTHER PAYABLES

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Payables for other taxes	6,795	5,868
Payables for staff related costs	4,684	4,601
Payables for land use right premiums (Note (i))	–	1,400
Payables for costs incurred in connection with the initial listing of the Company's shares	–	2,253
Amounts due to related parties (Note (ii))	11,637	–
Others	702	803
Financial liabilities measured at amortised cost	23,818	14,925

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

Notes:

- (i) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances from 31 December 2018 relating to "other payables" in connection with the Group's lease prepayments. Comparative information at 31 December 2018 has not been restated in this regard. Further details on the impacts of the transition to IFRS 16 are set out in Note 2(c).
- (ii) All of the amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

19 BANK AND OTHER LOANS

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

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment (Note)	53,000	31,000
– Secured by bills receivables	34,342	–
– Guaranteed by third parties	40,000	160,000
– Unsecured and unguaranteed	107,000	95,000
	234,342	286,000
Loans from other financial institutions:		
– Secured by bills receivables	95,427	–
	329,769	286,000

Note: At 31 December 2019, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB69,422,000 (2018: RMB72,266,000).

- (b) At 31 December 2019, the banking facilities of the Group amounted to RMB540,000,000 (2018: RMB449,906,000) were secured by the Group's property, plant and equipment, and/or guaranteed by third parties, or unsecured and unguaranteed. These facilities were utilised to the extent of RMB333,400,000 at 31 December 2019 (2018: RMB302,628,800).
- (c) Certain of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 23(b). At 31 December 2019, none of the covenants relating to the bank loans had been breached (2018: None).

20 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2019 RMB'000	2018 RMB'000
At 1 January	36,891	30,409
Provision for the year (Note 7(a))	3,332	14,375
Income tax refunded/(paid) during the year	590	(7,893)
At 31 December	40,813	36,891

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

(b) Deferred tax assets and liabilities recognised

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

Deferred tax arising from:	Assets		Liabilities		Net RMB'000
	Credit loss allowance RMB'000	Depreciation and finance costs arising from capitalisation of leases 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 (Note 7(a))	59	–	21,645	(1,063)	20,641
At 31 December 2018 and 1 January 2019	64	–	(20,051)	(1,063)	(21,050)
Credited to the consolidated statement of profit or loss (Note 7(a))	33	268	4,260	–	4,561
At 31 December 2019	97	268	(15,791)	(1,063)	(16,489)

(c) Deferred tax liabilities not recognised

At 31 December 2019, taxable temporary differences relating to the retained profits of the Group's subsidiary established in the PRC (excluding Hong Kong) amounted to RMB131,530,000 (2018: RMB103,489,000), where no deferred tax liabilities in respect of the PRC withholding tax that would be payable on the distributions of these profits were recognised as the Company controls the dividend policy of this subsidiary and it has been determined that it is probable that such profits will not be distributed in the foreseeable future.

21 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	At 31 December 2019		At 1 January 2019 (Note)	
	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	2,082	2,170	1,495	1,566
After 1 year but within 2 years	1,963	2,149	1,489	1,637
After 2 years but within 5 years	4,685	5,651	4,200	5,091
After 5 years	29,380	64,043	29,410	65,909
	36,028	71,843	35,099	72,637
	38,110	74,013	36,594	74,203
Less: total future interest expenses		(35,903)		(37,609)
Present value of lease liabilities		38,110		36,594

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. These liabilities have been aggregated with the brought forward balances from 31 December 2018 relating to "other payables" in connection with the Group's lease prepayments. Comparative information at 31 December 2018 has not been restated in this regard. Further details on the impacts of the transition to IFRS 16 are set out in Note 2(c).

22 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

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

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

	Share capital RMB'000 Note 22(b)	Share premium RMB'000 Note 22(d)	Exchange reserve RMB'000 Note 22(h)	Accumulated Losses RMB'000	Total equity RMB'000
Balance at 1 January 2018	–	–	–	–	–
Changes in equity for the year ended 2018:					
Loss for the year	–	–	–	(5,857)	(5,857)
Other comprehensive income	–	–	(385)	–	(385)
Total comprehensive income	–	–	(385)	(5,857)	(6,242)
Issuance of shares	–	72,248	–	–	72,248
Capitalisation Issue	396	(396)	–	–	–
Issuance of shares by initial public offering	138	129,897	–	–	130,035
	534	201,749	–	–	202,283
Balance at 31 December 2018 and 1 January 2019	534	201,749	(385)	(5,857)	196,041
Changes in equity for the year ended 2019:					
Loss for the year	–	–	–	(3,307)	(3,307)
Other comprehensive income	–	–	4,368	–	4,368
Total comprehensive income	–	–	4,368	(3,307)	1,061
Dividends approved in respect of the previous year (Note 22(c))	–	(9,567)	–	–	(9,567)
Balance at 31 December 2019	534	192,182	3,983	(9,164)	187,535

Note: The Group, including the Company, has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and there is no effect on the Company's equity at 1 January 2019. See Note 2(c).

22 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(b) Share capital

	2019		2018	
	No. of shares '000	HK\$'000	No. of shares '000	HK\$'000
Authorised:				
Ordinary shares of HK\$0.001 each	5,000,000	5,000	5,000,000	5,000

	2019		2018	
	No. of shares	RMB'000	No. of shares	RMB'000
Ordinary shares, issued and fully paid:				
At 1 January	606,252,000	534	100	–
Issuance of shares	–	–	100	–
Capitalisation issue	–	–	449,999,800	396
Issuance of shares by initial public offering	–	–	150,000,000	133
Issuance of shares by the exercise of an over-allotment option	–	–	6,252,000	5
At 31 December	606,252,000	534	606,252,000	534

(c) Dividends

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

	2019 RMB'000	2018 RMB'000
Final dividend proposed after the end of the reporting period of HK\$0.008 per ordinary share (2018: HK\$0.018 per ordinary share)	4,344	9,567

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

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

	2019 RMB'000	2018 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.018 per ordinary share (2017: HK\$Nil per ordinary share)	9,567	–

22 CAPITAL, RESERVES AND DIVIDENDS (CONTINUED)

(d) Share premium

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

(e) Other reserve

The balance of other reserve of the Group at 1 January 2018 represented the paid-in capital of Jiangnan Precision and the issued capital of East Pacific.

As part of the Reorganisation, the Company, through its wholly owned subsidiary KangLi HK, acquired the 100% equity interests in Jiangnan Precision from each of Jiangnan Precision's then equity holders at a total consideration of RMB70,000,000. Immediately following the acquisition, Jiangnan Precision became an indirectly wholly-owned subsidiary of the Company. The balance of other reserve at 31 December 2018 and 2019 represented the difference of the paid-in capital of Jiangnan Precision and the consideration paid by KangLi HK.

(f) Capital reserve

The balance of capital reserve represented contributions from equity holders into Jiangnan Precision in the form of debt exemption prior to 1 January 2018.

(g) Statutory reserve

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

(h) Exchange reserve

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

(i) Capital management

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

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

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

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

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

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 8.7% (2018: 5.6%) and 22.8% (2018: 14.7%) of the total trade and bills receivables was due from the Group's largest debtor and the five largest debtors, respectively.

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

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at 31 December 2019:

At 31 December 2019			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.03%	133,652	(40)
Less than 1 month past due	2%	24,870	(497)
1 to 3 months past due	6%	66	(4)
3 to 6 months past due	10%	668	(67)
Over 6 months past due	20%	200	(40)
		159,456	(648)

At 31 December 2018			
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	0.015%	149,204	(22)
Less than 1 month past due	1%	1,740	(17)
1 to 3 months past due	3%	–	–
3 to 6 months past due	5%	335	(17)
Over 6 months past due	10%	3,678	(368)
		154,957	(424)

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (Continued)

Trade receivables (Continued)

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

	2019 RMB'000	2018 RMB'000
Balance at 1 January	424	21
Impairment losses recognised during the year (Note 6(c))	224	403
Balance at 31 December	648	424

(b) Liquidity risk

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

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

	At 31 December 2019					Total RMB'000	Carrying amount RMB'000
	Contractual undiscounted cash outflow						
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000			
Bank and other loans	334,189	-	-	-	334,189	329,769	
Trade and bills payables measured at amortised cost	328,731	-	-	-	328,731	328,731	
Accrued expenses and other payables measured at amortised cost	23,818	-	-	-	23,818	23,818	
Lease liabilities (Note)	2,170	2,149	5,651	64,043	74,013	38,110	
	688,908	2,149	5,651	64,043	760,751	720,428	

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Lease liabilities include amounts recognised at the date of transition to IFRS 16 in respect of leases previously classified as operating leases under IAS 17, brought forward balances from 31 December 2018 relating to "other payables" in connection with the Group's lease prepayments, and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See Note 2(c).

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (Continued)

	At 31 December 2018						
	Contractual undiscounted cash outflow					Total RMB'000	Carrying amount RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000			
Bank and other loans	292,320	–	–	–	292,320	286,000	
Trade and bills payables measured at amortised cost	432,591	–	–	–	432,591	432,591	
Accrued expenses and other payables measured at amortised cost	14,925	–	–	–	14,925	14,925	
Non-current other payables	–	1,400	4,200	29,410	35,010	35,010	
	739,836	1,400	4,200	29,410	774,846	768,526	

(c) Interest rate risk

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

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

	At 31 December 2019		At 31 December 2018	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate borrowings:				
– Bank loans	4.1325%~5.76%	234,342	4.3935%~5.76%	286,000
– Loans from other financial institutions	3.6%~5.5%	95,427	–	–
		329,769		286,000
Fixed rate borrowings as a percentage of total borrowings		100%		100%

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

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

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

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

	Exposure to foreign currencies (expressed in RMB)			
	At 31 December 2019		At 31 December 2018	
	US\$ RMB'000	HK\$ RMB'000	US\$ RMB'000	HK\$ RMB'000
Cash at bank and on hand	8,605	81,600	2,409	100,763
Trade and bills receivables	10,797	–	5,074	–
Trade and bills payables	(4,676)	–	–	–
	14,726	81,600	7,483	100,763

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

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after tax and retained profits RMB'000
US\$	5%	620	5%	318
	(5%)	(620)	(5%)	(318)
HK\$	5%	3,468	5%	4,282
	(5%)	(3,468)	(5%)	(4,282)

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

23 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (Continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2018.

(e) Fair value measurement

Fair values of financial instruments carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values at 31 December 2019 and 2018.

24 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the consolidated financial statements were as follows:

	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000
Commitments in respect of property, plant and equipment – Contracted for	2,667	1,840

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

	At 31 December 2018 RMB'000
Within 1 year	124
After 1 year but within 5 years	96
	220

The Group is the lessee in respect of a number of office premises 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 2(c)). 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 2(g), and the details regarding the Group's future lease payments are disclosed in Note 21.

25 MATERIAL RELATED PARTY TRANSACTIONS

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

(a) Key management personnel remuneration

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

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	3,580	3,669
Contributions to defined contribution retirement plans	56	53
	3,636	3,722

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

(b) Transactions with related parties

	2019 RMB'000	2018 RMB'000
Sales of scrap materials (Note (i))	10,740	17,175
Operating lease expenses	96	96
Net increase/(decrease) in amounts due to related parties	11,637	(52,501)

Note:

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

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

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

The related party transactions in respect of operating lease expenses and advances from related parties above constitute continuing connected transactions and connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempted from the disclosure requirements in Chapter 14A of the Listing Rules.

26 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2019 RMB'000	At 31 December 2018 RMB'000 (Note)
Non-current asset			
Property, plant and equipment		1,278	–
Interests in subsidiaries	12	178,617	–
		179,895	–
Current assets			
Prepayments and other receivables		162	–
Amounts due from subsidiaries		5,683	177,931
Cash at bank and on hand		3,085	18,110
		8,930	196,041
Current liabilities			
Lease liabilities		519	–
		8,411	196,041
Net current assets			
		188,306	196,041
Total assets less current liabilities			
		188,306	196,041
Non-current liabilities			
Lease liabilities		771	–
		187,535	196,041
NET ASSETS			
		187,535	196,041
CAPITAL AND RESERVES			
Share capital	22	534	534
Reserves		187,001	195,507
		187,535	196,041
TOTAL EQUITY			
		187,535	196,041

Note: The Company has initially applied IFRS 16 at 1 January 2019. The adoption of IFRS 16 has no effect on the comparative information of the Company.

Approved and authorised for issue by the board of directors on 30 March 2020.

Liu Ping
Chairman

Lu Xiaoyu
Director

27 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

Impact from the COVID-19 pandemic

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place certain contingency measures. The directors of the Company confirm that these contingency measures include but not limited to reassessing the fluctuation (if any) to the demand and selling price of the Group's steel products in light of the fluctuations in the purchase prices of raw materials, reassessing the sustainability of existing suppliers and/or expanding the supplier base of raw materials in ensuring the Group is able to meet customers' demands, negotiating with customers on possible delay in delivery timetables, improving the Group's cash management by expediting debtor settlements, and negotiating with suppliers an extension of payment terms. The Group will keep the contingency measures under review as the COVID-19 pandemic situation evolves.

As far as the Group's businesses are concerned, the COVID-19 pandemic may cause production and delivery delays of the Group's steel products, but the directors of the Company consider that such impact is temporary and could be reduced by expediting production upon cessation of the COVID-19 pandemic. In addition, the COVID-19 pandemic may also significantly impact the demand of the Group's steel products which in turn may result in the decrease in sales of such products, and hence the profitability of the Group's operations and the potential impairment of the Group's production facilities in future periods. Such possible decrease in the demand of the Group's products may be a result of the customers' deteriorating operations which may increase the impairment risks of related debtors in future periods. These possible impacts have not been reflected in the Group's consolidated financial statements as of 31 December 2019, and the actual impacts may differ from these estimates as the COVID-19 pandemic situation continues to evolve and when further information may become available.

28 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2(c).

29 IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate holding company and ultimate controlling parties of the Company at 31 December 2019 to be Newrich Limited, which is incorporated in the British Virgin Islands, and Mr Mei Zefeng and Ms Liu Ping, respectively. Newrich Limited does not produce financial statements available for public use.

30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019

Up to the date of issue of these consolidated financial statements, the IASB has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Revised Conceptual Framework for Financial Reporting 2018	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 9, <i>Financial instruments</i> , IAS 39, <i>Financial instruments: recognition and measurement</i> , and IFRS 7, <i>Financial instruments: disclosures</i> , <i>Interest rate benchmark reform</i>	1 January 2020
Amendments to IFRS 3, <i>Business Combination</i> , <i>Definition of a business</i>	1 January 2020
Amendments to IAS1, <i>Presentation of financial statements</i> , and IAS 8, <i>Accounting policies, changes in accounting estimates and errors</i> , <i>Definition of a material</i>	1 January 2020
IFRS 17, <i>Insurance contracts</i>	1 January 2021
Amendments to IAS 1, <i>Presentation of financial statements</i> , <i>Classification of liabilities as current or non-current</i>	1 January 2022
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE YEARS FINANCIAL SUMMARY

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	1,495,630	1,548,276	1,497,537	1,264,109	1,140,716
Gross profit	99,525	130,760	161,478	116,093	93,960
Profit for the year	24,698	50,921	66,143	33,980	16,542

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Non-current assets	305,316	343,519	377,361	413,080	432,066
Current assets	1,104,144	1,088,654	938,393	797,539	801,390
Total assets	1,409,460	1,432,173	1,315,754	1,210,619	1,233,456
Current liabilities	742,232	776,850	821,188	777,726	839,377
Non-current liabilities	52,517	56,060	78,106	80,537	75,703
Total liabilities	794,749	832,910	899,294	858,263	915,080
NET ASSETS	614,711	599,263	416,460	352,356	318,376
Total equity attributable to equity shareholders	614,711	599,263	416,460	350,298	316,366
Non-controlling interests	–	–	–	2,058	2,010
TOTAL EQUITY	614,711	599,263	416,460	352,356	318,376