



# KANGLI INTERNATIONAL HOLDINGS LIMITED

## 康利國際控股有限公司


(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6890

# INTERIM REPORT 2020

# CONTENTS

<b>2</b>	Corporate Information
<b>3</b>	Consolidated Statement of Profit or Loss
<b>4</b>	Consolidated Statement of Profit or Loss and Other Comprehensive Income
<b>5</b>	Consolidated Statement of Financial Position
<b>6</b>	Consolidated Statement of Changes in Equity
<b>8</b>	Condensed Consolidated Cash Flow Statement
<b>9</b>	Notes to the Unaudited Interim Financial Report
<b>24</b>	Management Discussion and Analysis
<b>31</b>	Additional Information



## 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  
P.O. 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

### AUDITOR

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

### 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](http://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)

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited  
(Expressed in Renminbi (“RMB”))

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
<b>Revenue</b>	4	<b>625,226</b>	691,240
Cost of sales		<b>(577,425)</b>	(641,940)
<b>Gross profit</b>	4(b)	<b>47,801</b>	49,300
Other income	5	<b>3,717</b>	1,798
Selling expenses		<b>(21,984)</b>	(20,080)
Administrative expenses		<b>(9,350)</b>	(8,424)
<b>Profit from operations</b>		<b>20,184</b>	22,594
Finance costs	6(a)	<b>(8,317)</b>	(11,290)
<b>Profit before taxation</b>	6	<b>11,867</b>	11,304
Income tax	7	<b>(1,304)</b>	861
<b>Profit attributable to equity shareholders of the Company for the period</b>		<b>10,563</b>	12,165
<b>Earnings per share</b>			
Basic and diluted (RMB)	8	<b>0.02</b>	0.02

The notes on pages 9 to 23 form part of this interim financial report.

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

for the six months ended 30 June 2020 – unaudited  
(Expressed in RMB)

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
<b>Profit for the period</b>	<b>10,563</b>	12,165
<b>Other comprehensive income for the period (after tax):</b>		
Item that may be reclassified subsequently to profit or loss		
– Exchange differences on translation into presentation currency of the Group	<b>116</b>	113
<b>Total comprehensive income attributable to equity shareholders of the Company for the period</b>	<b>10,679</b>	12,278

The notes on pages 9 to 23 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited  
(Expressed in RMB)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9	277,575	305,316
<b>Current assets</b>			
Inventories	10	339,764	335,512
Trade and bills receivables	11	475,535	489,461
Prepayments, deposits and other receivables	12	130,559	94,955
Cash at bank and on hand	13	214,633	184,216
		<b>1,160,491</b>	1,104,144
<b>Current liabilities</b>			
Trade and bills payables	14	363,980	345,750
Accrued expenses and other payables	15	35,257	23,818
Bank and other loans	16	344,246	329,769
Lease liabilities		1,669	2,082
Current taxation		34,879	40,813
		<b>780,031</b>	742,232
<b>Net current assets</b>		<b>380,460</b>	361,912
<b>Total assets less current liabilities</b>		<b>658,035</b>	667,228
<b>Non-current liabilities</b>			
Lease liabilities		22,420	36,028
Deferred tax liabilities	17	14,569	16,489
		<b>36,989</b>	52,517
<b>NET ASSETS</b>		<b>621,046</b>	614,711
<b>CAPITAL AND RESERVES</b>			
Share capital		534	534
Reserves		620,512	614,177
<b>TOTAL EQUITY</b>		<b>621,046</b>	614,711

The notes on pages 9 to 23 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020 – unaudited  
(Expressed in RMB)

	Attributable to equity shareholders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
<b>Balance at 1 January 2019</b>	534	201,749	180,000	107,021	12,682	(385)	97,662	599,263
<b>Changes in equity for the six months ended 30 June 2019:</b>								
Profit for the period	-	-	-	-	-	-	12,165	12,165
Other comprehensive income for the period	-	-	-	-	-	113	-	113
Total comprehensive income	-	-	-	-	-	113	12,165	12,278
Dividends approved in respect of the previous year	-	(9,567)	-	-	-	-	-	(9,567)
<b>Balance at 30 June 2019 and 1 July 2019</b>	534	192,182	180,000	107,021	12,682	(272)	109,827	601,974
<b>Changes in equity for the six months ended 31 December 2019:</b>								
Profit for the period	-	-	-	-	-	-	12,533	12,533
Other comprehensive income for the period	-	-	-	-	-	204	-	204
Total comprehensive income	-	-	-	-	-	204	12,533	12,737
Appropriation to reserve	-	-	-	-	2,052	-	(2,052)	-
<b>Balance at 31 December 2019</b>	534	192,182	180,000	107,021	14,734	(68)	120,308	614,711

The notes on pages 9 to 23 form part of this interim financial report.

Consolidated Statement of Changes in Equity (Continued)  
for the six months ended 30 June 2020 – unaudited  
(Expressed in RMB)

	Attributable to equity shareholders of the Company							Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	
<b>Balance at 1 January 2020</b>	<b>534</b>	<b>192,182</b>	<b>180,000</b>	<b>107,021</b>	<b>14,734</b>	<b>(68)</b>	<b>120,308</b>	<b>614,711</b>
<b>Changes in equity for the six months ended 30 June 2020:</b>								
Profit for the period	-	-	-	-	-	-	10,563	10,563
Other comprehensive income for the period	-	-	-	-	-	116	-	116
Total comprehensive income	-	-	-	-	-	116	10,563	10,679
Dividends approved in respect of the previous year (Note 18(a))	-	(4,344)	-	-	-	-	-	(4,344)
<b>Balance at 30 June 2020</b>	<b>534</b>	<b>187,838</b>	<b>180,000</b>	<b>107,021</b>	<b>14,734</b>	<b>48</b>	<b>130,871</b>	<b>621,046</b>

The notes on pages 9 to 23 form part of this interim financial report.



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020 – unaudited  
(Expressed in RMB)

	Note	Six months ended 30 June	
		2020 RMB'000	2019 RMB'000
<b>Operating activities</b>			
Cash generated from operations		37,218	37,033
Income tax (paid)/refunded		(9,158)	5,270
<b>Net cash generated from operating activities</b>		<b>28,060</b>	42,303
<b>Investing activities</b>			
Payments for the purchase of property, plant and equipment		(5,935)	(3,632)
Proceeds from disposal of property, plant and equipment		38	89
Interest received		1,426	654
<b>Net cash used in investing activities</b>		<b>(4,471)</b>	(2,889)
<b>Financing activities</b>			
Proceeds from new bank and other loans		232,246	162,850
Repayment of bank and other loans		(217,769)	(226,000)
Capital element of lease rentals paid		(5,418)	(44)
Interest element of lease rentals paid		(49)	(4)
Net increase in amounts due to related parties		3,920	30,750
Interest paid		(7,741)	(10,405)
<b>Net cash generated from/(used in) financing activities</b>		<b>5,189</b>	(42,853)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>28,778</b>	(3,439)
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>130,616</b>	144,940
<b>Effect of foreign exchange rate changes</b>		<b>1,689</b>	473
<b>Cash and cash equivalents at the end of the period</b>	13	<b>161,083</b>	141,974

The notes on pages 9 to 23 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in RMB unless otherwise indicated)

## 1 CORPORATE INFORMATION

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

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (the “**IASB**”). It was authorised for issue on 28 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company’s annual consolidated financial statements for that financial year but is derived from those financial statements.

### 3 CHANGES IN ACCOUNTING POLICIES

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

- Amendments to IFRS 3, *Definition of a Business*
- Amendments to IFRS 9, IAS 39 and IFRS 7, *Interest Rate Benchmark Reform*
- Amendments to IAS 1 and IAS 8, *Definition of Material*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to IFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying Covid-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred.

### 4 REVENUE AND SEGMENT REPORTING

#### (a) Revenue

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
<b>Revenue from contracts with customers within the scope of IFRS 15</b>		
Disaggregated by major products:		
– Sales of cold-rolled hard steel coil	35,124	40,308
– Sales of hot-dipped unpainted galvanised steel products	384,423	449,803
– Sales of hot-dipped painted galvanised steel products	205,679	201,129
	<b>625,226</b>	<b>691,240</b>

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

## 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting

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

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

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

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

Revenue and cost are allocated to the reportable segments with reference to sales generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred for the six months ended 30 June 2020 and 2019. Assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below:

	30 June 2020			
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	Total RMB'000
Revenue from external customers recognised at a point in time	35,124	384,423	205,679	625,226
Reportable segment gross profit	2,330	22,952	22,519	47,801

## 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

### (b) Segment reporting (Continued)

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

	30 June 2019			Total RMB'000
	Hard steel coil RMB'000	Unpainted galvanised steel products RMB'000	Painted galvanised steel products RMB'000	
Revenue from external customers recognised at a point in time	40,308	449,803	201,129	691,240
Reportable segment gross profit	2,478	24,989	21,833	49,300

### (c) Geographic information

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
The People's Republic of China (the "PRC")	595,095	650,899
South Korea	13,233	26,276
Other countries	16,898	14,065
	625,226	691,240

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

## 5 OTHER INCOME

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest income	1,426	654
Net foreign exchange gain	1,489	327
Government grants	783	1,045
Net loss on disposal of property, plant and equipment	(32)	(330)
Others	51	102
	<b>3,717</b>	1,798

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

### (a) Finance costs

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Interest on bank and other loans	7,741	10,405
Interest on lease liabilities	576	885
	<b>8,317</b>	11,290

### (b) Staff costs

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Salaries, wages and other benefits	19,668	20,274
Contributions to defined contribution retirement plan	275	1,673
	<b>19,943</b>	21,947

### (c) Other items

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Depreciation and amortisation		
– owned property, plant and equipment	23,559	22,898
– right-of-use assets	917	780
Impairment losses/(reversal of impairment losses) on trade receivables	47	(363)
Cost of inventories (Note 10(b))	577,425	641,940

## 7 INCOME TAX

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
<b>Current taxation</b>		
PRC Corporate Income Tax:		
– Provision for the period	2,513	2,529
– Under/(over)-provision in respect of prior years	478	(3,021)
	2,991	(492)
Hong Kong Profits Tax:		
– Provision for the period	233	596
	3,224	104
<b>Deferred taxation (Note 17)</b>		
Reversal and origination of temporary differences	(1,920)	(965)
	1,304	(861)

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 2019/20 onwards. The profits tax rate for the first Hong Kong Dollar (“HK\$”) 2,000,000 of profits will be taxed at 8.25%, and profits above that amount will be subject to a tax rate of 16.5%.
- (iii) The subsidiary of the Group established in the PRC (excluding Hong Kong) is subject to PRC Corporate Income Tax rate of 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 25%).
- (iv) The PRC Corporate Income Tax Law allows enterprises to apply for certificate of “High and New Technology Enterprise” (“HNTTE”), which entitles the qualified enterprises to a preferential income tax rate of 15%, subject to fulfillment of the recognition criteria. The subsidiary of the Group established in the PRC was qualified as a HNTTE and is entitled to the preferential tax rate of 15% for the three calendar years ended/ending 31 December 2018, 2019 and 2020.

## 8 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2020 is calculated based on the profit attributable to the equity shareholders of the Company of RMB10,563,000 (six months ended 30 June 2019: RMB12,165,000) and the weighted average of 606,252,000 (six months ended 30 June 2019: 606,252,000) ordinary shares in issue during the interim period.

### (b) Diluted earnings per share

There was no difference between basic and diluted earnings per share as the Company did not have any dilutive potential shares outstanding during the six months ended 30 June 2020 and 2019.

## 9 PROPERTY, PLANT AND EQUIPMENT

### (a) Right-of-use assets

- (i) During the six months ended 30 June 2020, the Group entered into a new lease agreement for use of warehouse, and therefore recognised the addition to right-of-use assets of RMB746,000.
- (ii) The Group's right-of-use assets mainly comprise land use right. 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, where rent is payable annually. During the six months ended 30 June 2020, the Group entered into a supplementary agreement for the land use rights with the lessor, which required the Group to make a lump-sum payment amounted to RMB5,195,000 in January 2020, and upon such payment, the Group's annual lease payments would reduce from RMB1,400,000 to RMB871,000. The change in future lease payments is considered as a lease modification. Accordingly, the Group has remeasured the related lease liabilities, and recognised the difference between the carrying amount of the lease liabilities before and after the modification of RMB9,924,000 as an adjustment to the right-of-use assets.

### (b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB5,935,000 (six months ended 30 June 2019: RMB5,221,000). Items of plant and machinery with a net book value of RMB70,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB419,000).



## 10 INVENTORIES

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Raw materials and consumables	134,318	156,751
Finished goods	205,446	178,761
	<b>339,764</b>	335,512

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

	Six months ended 30 June 2020 RMB'000	2019 RMB'000
Carrying amounts of inventories sold	577,425	641,940

## 11 TRADE AND BILLS RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables, net of loss allowance	114,795	158,808
Bills receivables	360,740	330,653
	<b>475,535</b>	489,461

Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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

## 11 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, is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Less than 1 month	95,752	118,969
1 to 3 months	16,421	18,999
3 to 6 months	2,438	20,680
Over 6 months	184	160
	<b>114,795</b>	158,808

(b) At 30 June 2020, 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 30 June 2020, the Group's maximum exposure to loss and undiscounted cash outflow should the issuing banks fail to settle the notes on maturity dates amounted to RMB138,968,000 (31 December 2019: RMB261,382,000).

(c) At 30 June 2020, bills receivables include bank acceptance notes discounted at banks or endorsed to suppliers with recourse totalling RMB146,680,000 (31 December 2019: RMB172,137,000). 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 RMB146,680,000 (31 December 2019: RMB172,137,000).

At 30 June 2020, bills receivables of the Group with carrying amount of RMBNil (31 December 2019: RMB4,000,000) were pledged as collaterals for bills issued by the Group (see Note 14).

## 12 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Advances to staff	784	1,105
Others	1,880	2,123
Financial assets measured at amortised cost	2,664	3,228
Prepayments and deposits:		
– Prepayments for purchase of raw materials	124,194	87,884
– Prepayments for utilities expenses	3,701	3,843
	127,895	91,727
	130,559	94,955

## 13 CASH AT BANK AND ON HAND

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank	213,989	183,713
Cash on hand	644	503
Cash at bank and on hand included in the consolidated statement of financial position	214,633	184,216
Less: restricted deposits (Note (i))	53,550	53,600
Cash and cash equivalents included in the condensed consolidated cash flow statement	161,083	130,616

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 14).

## 14 TRADE AND BILLS PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade and bills payables:		
– Trade payables	75,528	80,721
– Bills payables	276,993	248,010
	<b>352,521</b>	328,731
Contract liabilities:		
– Receipts in advance from customers	11,459	17,019
	<b>363,980</b>	345,750

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 3 months	221,931	206,280
Between 3 to 6 months	117,867	112,278
Over 6 months	12,723	10,173
	<b>352,521</b>	328,731

## 15 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Payables for other taxes	10,607	6,795
Payables for staff related costs	3,996	4,684
Dividends payables	4,344	–
Amounts due to related parties	15,557	11,637
Others	753	702
Financial liabilities measured at amortised cost	<b>35,257</b>	23,818

## 16 BANK AND OTHER LOANS

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bank loans:		
– Secured by the Group's property, plant and equipment (Note (i))	53,000	53,000
– Secured by bills receivables	8,289	34,342
– Guaranteed by third parties	40,000	40,000
– Unsecured and unguaranteed	136,000	107,000
	<b>237,289</b>	234,342
Loans from other financial institutions:		
– Secured by bills receivables	106,957	95,427
	<b>344,246</b>	329,769

Note:

- (i) At 30 June 2020, the aggregate carrying amount of property, plant and equipment pledged as collaterals for the Group's short-term bank and other loans is RMB58,275,000 (31 December 2019: RMB69,422,000)

- (b) At 30 June 2020, the banking facilities of the Group amounted to RMB549,000,000 (31 December 2019: RMB540,000,000) were secured by the Group's property, plant and equipment, and/or guaranteed by third parties, or unsecured and unguaranteed. These facilities were utilised to the extent of RMB388,450,000 at 30 June 2020 (31 December 2019: RMB333,400,000).

## 17 DEFERRED TAX ASSETS AND LIABILITIES

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

Deferred tax arising from:	Assets		Liabilities		Net RMB'000
	Credit loss allowance RMB'000	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 2019	64	–	(20,051)	(1,063)	(21,050)
Credited to the consolidated statement of profit or loss	33	268	4,260	–	4,561
At 31 December 2019	97	268	(15,791)	(1,063)	(16,489)
Credited/(charged) to the consolidated statement of profit or loss (Note 7)	7	(181)	2,094	–	1,920
<b>At 30 June 2020</b>	<b>104</b>	<b>87</b>	<b>(13,697)</b>	<b>(1,063)</b>	<b>(14,569)</b>

## 18 DIVIDENDS

### (a) Dividends

- (i) **Dividends payable to equity shareholders of the Company attributable to the interim period**

The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: RMBNil).

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

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$0.008 per ordinary share (six months ended 30 June 2019: HK\$0.018 per ordinary share)	4,344	9,567

## 19 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### Fair value of financial instruments carried at other than fair value

The carrying amounts of the financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2020 and 31 December 2019.

## 20 COMMITMENTS

### Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Commitments in respect of property, plant and equipment:		
– Contracted for	3,947	2,667

## 21 MATERIAL RELATED PARTY TRANSACTIONS

	Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Sales of scrap materials (Note (i))	3,999	8,771
Operating lease expenses	48	48
Net increase in amounts due to related parties	3,920	30,750

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.

## 22 IMPACTS OF COVID-19 PANDEMIC

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

The Group has been closely monitoring the impact from the Covid-19 pandemic on the Group's businesses and has put in place various contingency measures. These contingency measures included 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, improving the Group's cash management by expediting debtor settlements, and negotiating with suppliers on 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 has caused the decrease in both the sales volume and selling price of steel products. The gradual easing of the Covid-19 pandemic situation in the Mainland China has led to the recovery of the demand and selling price of steel products since then. In addition to the above, the Group also received waiver of contributions to defined contribution retirement plan of RMB1,399,000 during the interim period.



## 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 is primarily engaged in the production and sales of cold rolled steel products, unpainted galvanized steel products and painted galvanized steel products to mainly midstream steel product processors for further processing and to home appliance manufacturers for production of home appliances such as refrigerators, washing machines and ovens. The Group has well-equipped facilities and production lines, enabling the Group to provide the customers with pickled rolls, cold-rolled steel, unpainted galvanized steel and painted galvanized steel products.

For the six months ended 30 June 2020, the Group recorded a revenue amounted to approximately RMB625,226,000, a decrease of approximately RMB66,014,000 or 9.6% compared with that of the corresponding period in 2019.

For the six months ended 30 June 2020, the sales volume of our cold rolled steel products and galvanized steel products totalled 117,689 tonnes, representing a decrease of 10,822 tonnes or 8.4% compared with 128,520 tonnes for the corresponding period in 2019. In particular, the sales volume of our cold rolled steel products and galvanized steel products were 8,254 tonnes and 109,444 tonnes respectively, and among the latter, the sales volume of our unpainted galvanized steel products and painted galvanized steel products were 76,883 tonnes and 32,561 tonnes respectively, representing a decrease of 12,446 tonnes for unpainted galvanized steel products and an increase of 2,738 tonnes for painted galvanized steel products as compared with the corresponding period in 2019. Average selling prices of all products dropped slightly from the corresponding period last year.

Despite the drop in the Group's sales volume under the impact of the COVID-19 pandemic, stringent control over production costs has contributed to the increase in gross profit margins, namely the 0.5% increase in gross profit margin for cold rolled steel products and the 0.4% increase in gross profit margin for unpainted galvanized steel products, while the gross profit margin for painted galvanized steel products remained flat as compared with the corresponding period last year. By adjusting the mix of products being sold, the overall gross profit margin increased from approximately 7.1% in the corresponding period in 2019 to 7.6%.

### PROSPECTS

The outbreak of COVID-19 pandemic in early 2020 has brought about sweeping impact to the whole world.

The pandemic has obstructed workers' timely access to their workplaces and caused delay in resumption of production for most enterprises. Our production and sales volume decreased to a certain extent, while the demand from the downstream market was also impacted. To minimize the impact on enterprises, the government has introduced a number of concessionary policies, such as exemption and reduction of social insurance contributions for employees, which brought down the Group's staff costs to a certain extent and lessened the burden on our operation during the pandemic.

With the slackened GDP growth, ageing population and so forth, the market of white goods as represented by refrigerators and washing machines was under tremendous pressure during the first half of the year. Albeit the increase in the average price for offline sales, the decrease in sales volume was remarkable. For online sales, sales volume grew and average price dropped, while brand concentration further augmented. For small home appliances, the sales volume of ovens was not much affected and saw growth in export volume, resulting in the more prominent increase in the sales volume of oven materials in Guangdong region. Facing the complicated market environment in the first half of the year, our fortified internal control, our further control over production costs and the favorable government policies have cushioned our results of operation against drastic downturn.

As market confidence revived following the V-shaped recovery of GDP in the second quarter, the focus of the Group's production in the second half of the year will be on uplifting product quality, diversifying sales and marketing approaches, and enhancing service quality. The Group will further step up its market development efforts, seek to further uplift the proportion of orders from the ultimate manufacturers of home appliances to secure more stable orders and higher gross profit margins. The pandemic has also altered the market landscape. It has, we believe, brought about challenges as well as new opportunities. When the pandemic becomes under control, we are confident that our sales volume and profit will go up further. We will endeavour to push ahead our expansion plan, seek to achieve sustainable business development, and bring forth long-term value to our shareholders.

## FINANCIAL REVIEW

### Financial Performance Highlights

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Key financial information and performance ratios		
– Revenue	<b>625,226</b>	691,240
– Gross profit	<b>47,801</b>	49,300
– Gross profit margin	<b>7.6%</b>	7.1%
– Profit for the period	<b>10,563</b>	12,165
– Net profit margin	<b>1.7%</b>	1.8%
– Earnings per share	<b>RMB0.02</b>	RMB0.02

	At	At
	30 June 2020 (unaudited)	31 December 2019 (audited)
Key performance ratios		
– Current ratio	<b>1.5</b>	1.5
– Gearing ratio	<b>0.6</b>	0.6

### Revenue

Revenue of the Group is primarily generated from the sales of hard steel coil and hot-dip galvanized steel products. For the six months ended 30 June 2020, the total revenue of the Group amounted to approximately RMB625,226,000, representing a decrease of approximately 9.6% from approximately RMB691,240,000 in the six months ended 30 June 2019. The decrease in the Group's revenue was primarily attributable to the decrease in the sales volume and average selling prices for the Group's products. Despite the impact of the epidemic on its business, the Group managed to narrow down the decrease in sales revenue as a whole with the active adoption of measures and adjustment of product mix.

## Management Discussion and Analysis

An analysis of the Group's revenue, sales volume and average selling price by products in the six months ended 30 June 2020 and 2019 is as follows:

### Six months ended 30 June

	2020			2019			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 %
<b>Cold rolled steel products</b>									
Hard steel coil	35,124	8,254	4,255	40,308	9,368	4,303	-12.9%	-11.9%	-1.1%
Hot-dip galvanized steel products	590,102	109,444	5,392	650,932	119,152	5,463	-9.3%	-8.1%	-1.3%
– unpainted galvanized steel products	384,423	76,883	5,000	449,803	89,329	5,035	-14.5%	-13.9%	-0.7%
– painted galvanized steel products	205,679	32,561	6,317	201,129	29,823	6,744	2.3%	9.2%	-6.3%
<b>Total</b>	<b>625,226</b>	<b>117,698</b>	<b>5,312</b>	<b>691,240</b>	<b>128,520</b>	<b>5,378</b>	<b>-9.6%</b>	<b>-8.4%</b>	<b>-1.2%</b>

## Gross profit and gross profit margin

For the six months ended 30 June 2020, gross profit of the Group amounted to approximately RMB47,801,000 (six months ended 30 June 2019: approximately RMB49,300,000). The overall gross profit margin increased from 7.1% in 2019 to 7.6% in 2020. An analysis of the Group's gross profit, proportion of total gross profit and gross profit margin by products in the six months ended 30 June 2020 and 2019 is as follows:

	Six months ended 30 June			
	2020		2019	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
<b>Cold rolled steel products</b>				
Hard steel coil	2,330	6.6%	2,478	6.1%
Hot-dip galvanized steel products	45,471	7.7%	46,822	7.2%
– unpainted galvanized steel products	22,952	6.0%	24,989	5.6%
– painted galvanized steel products	22,519	10.9%	21,833	10.9%
Total	47,801	7.6%	49,300	7.1%

An increase in the overall gross profit margin of the Group was mainly the result of mitigating the impact of the fluctuation of the market prices of raw materials as the Company actively strengthened the expectation management of market price of steel.

## Other income/expenses

Other income/expenses – net of the Group amounted to approximately RMB3,717,000 for the six months ended 30 June 2020, representing an increase of RMB1,919,000 from approximately RMB1,798,000 in the corresponding period in 2019. The increase was mainly attributable to an increase in bank interest income and the increase in foreign exchange gain.

## Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB20,080,000 in the six months ended 30 June 2019 to approximately RMB21,984,000 in the corresponding period in 2020. The increase was mainly due to the increase in transportation expenses.

### **Administrative expenses**

Administrative expenses of the Group increased from approximately RMB8,424,000 in the six months ended 30 June 2019 to approximately RMB9,350,000 in the corresponding period in 2020. The increase was mainly due to increase in consulting services fee.

### **Finance costs**

Finance costs of the Group decreased from approximately RMB11,290,000 in the six months ended 30 June 2019 to approximately RMB8,317,000 in the corresponding period in 2020. The decrease was mainly due to the decrease in interest on borrowings.

### **Profit before taxation**

Profit before taxation of the Group increased slightly from approximately RMB11,304,000 in the six months ended 30 June 2019 to approximately RMB11,867,000 in the corresponding period in 2020.

### **Income tax**

Income tax of the Group changed from income tax credit of approximately RMB861,000 in the six months ended 30 June 2019 to income tax expense of approximately RMB1,304,000 in the six months ended 30 June 2020. A subsidiary of the Group was entitled to the preferential income tax rate of 15% as it obtained the status of High-tech Enterprise from relevant tax authority at the end of 2018. The income tax credit in 2019 was attributable to the reversal of over-provision in previous years.

### **Profit for the period**

As a result of the foregoing, the profit of the Group for the period decreased from approximately RMB12,165,000 for the six months ended 30 June 2019 to approximately RMB10,563,000 for the corresponding period in 2020. The net profit margin of the Group for the period amounted to approximately 1.7% (2019: 1.8%).

### **Liquidity and financial resources**

As at 30 June 2020, the Group had cash at bank and on hand of approximately RMB214,633,000 (31 December 2019: approximately RMB184,216,000). As at 30 June 2020, the restricted bank deposits placed at banks as collaterals for bills issued by the Group amounted to approximately RMB53,550,000 in aggregate, comparable to approximately RMB53,600,000 as at 31 December 2019. The Board will ensure sufficient liquidity at any time to meet its matured liabilities.

### **Net current asset**

The Group recorded net current assets of approximately RMB380,460,000 as at 30 June 2020 (31 December 2019: approximately RMB361,912,000). The current ratio, calculated by dividing the current assets by current liabilities, was 1.5 as at 30 June 2020 (31 December 2019: approximately 1.5).

## Borrowings and pledge of assets

As at 30 June 2020, the Group had bank and other loans amounted to approximately RMB344,246,000 (31 December 2019: approximately RMB329,769,000), of which approximately RMB53,000,000 was secured by the Group's property, plant and equipment, and loans from other financial institutions and banks of approximately RMB115,246,000 was secured by bills receivables. All borrowings shall be repayable within one year.

The Group's gearing ratio, calculated by dividing total borrowing which includes all interest-bearing loans and amounts due to related parties under accrued expenses and other payables by total equity of the Group, as at 30 June 2020 was approximately 0.6 (31 December 2019: approximately 0.6).

## Capital structure

The Company's capital comprises ordinary shares and capital reserves. The Group finances its working capital, capital expenditures and other liquidity requirements through a combination of its cash and cash equivalents, cash flows generated from operations, bank facilities, and net proceeds from the initial public offering of the Company. The Group aims to maintain flexibility in funding by keeping sufficient bank balances, credit facilities available and interest bearing borrowings which enable the Group to continue its operation.

## Contingent liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities.

## Financial risks

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

### – Foreign currency risk

Most of the Group's businesses are settled in Renminbi. However, the Group's sales to overseas customers are settled in foreign currencies. For the first half of 2020, approximately 95.18% of the Group's revenue was settled in Renminbi and approximately 4.82% was settled in foreign currencies.

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

### – Interest rate risk

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

### – Credit risk

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

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2020, the Group had approximately 504 employees, including executive Directors. The employees' salaries are reviewed and adjusted annually based on their performance and experience. The Group's employee benefits include performance bonus, medical insurance, mandatory provident fund scheme, local municipal government retirement scheme and education subsidy to encourage continuous professional development of staff.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

The Group did not have material acquisitions and disposal of subsidiaries and associated companies for the six months ended 30 June 2020.

## **FUTURE PLANS FOR SIGNIFICANT INVESTMENTS AND CAPITAL ASSETS**

Apart from that disclosed in the section headed "Use of net proceeds from Listing" in this report, the Group did not have any plans for any other significant investments and capital assets.

## **INTERIM DIVIDEND**

The Board of the Company did not recommend to declare any interim dividend for the six months ended 30 June 2020.

## **SUBSEQUENT EVENTS AFTER 30 JUNE 2020**

There were no major subsequent events since 30 June 2020 and up to the date of this report.

## ADDITIONAL INFORMATION

### REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 has been reviewed by the Audit Committee of the Company. The Audit Committee was satisfied that the Group’s unaudited interim financial statements were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the current period and that adequate disclosures had been made.

### USE OF NET PROCEEDS FROM LISTING

The shares of the Company were listed on the Stock Exchange on 19 November 2018 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 30 June 2020, 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 period from 1 January 2019 to 30 June 2020 RMB	Unutilized balance as at 30 June 2020 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.



## Additional Information

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 in 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**") in 2019, 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 since they knew the land use change.

With the impact of the COVID-19 pandemic since early 2020, the land securing process does not have much progress up till now and the development plan is behind schedule. Once the suitable land parcels are secured, it is expected that the development plan will be implemented as it was intended.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

In the opinion of the Board of the Company, throughout the six months ended 30 June 2020, the Company has complied with the code provisions set out in the Corporate Governance Code under Appendix 14 to the Listing Rules.

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

The Company has not redeemed any of its securities during the six months ended 30 June 2020. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the six months ended 30 June 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the model code as set out in Appendix 10 to the Listing Rules (the "**Model Code**") to regulate the dealings of Directors of the Company in the Group's securities. Upon specific enquiries made by the Company, all Directors have confirmed their compliance with the Model Code during the six months ended 30 June 2020.

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

At 30 June 2020, 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%

Notes:

- (1) The Letter "L" denotes long position in the Company's shares.
- (2) The percentage is calculated based on the total number of issued shares as at 30 June 2020.
- (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 Company's 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 Company's shares pursuant to the SFO.
- (4) Ms. Liu Ping, being the sole director of Star Century Corporate Limited, is the sole shareholder of Star Century Corporate Limited which holds 85,500,000 shares. Therefore, Ms. Liu Ping is deemed to be interested in Star Century Corporate Limited's interest in the Company's shares pursuant to the SFO. In addition, Ms. Liu Ping is the spouse of Mr. Mei Zefeng. Therefore, Ms. Liu Ping is deemed to be interested in Mr. Mei Zefeng's interest in the Company's shares pursuant to the SFO.

Save as disclosed above, as at 30 June 2020, so far as was known to the Directors and chief executives of the Company, none of the Directors and the chief executives of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2020, 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 long position in the Company's shares.
- (2) The percentage is calculated based on the total number of issued shares as at 30 June 2020.
- (3) 香港東方控股實業有限公司 holds 59,000,000 shares of the Company. 江蘇常州經濟開發管理委員會 holds 100% of the issued shares of 常州東方新城建設有限公司, which holds 100% of the issued shares of 常州東方水務投資發展有限公司, which holds 100% of the issued shares of 香港東方控股實業有限公司. Therefore, each of 江蘇常州經濟開發管理委員會, 常州東方新城建設有限公司 and 常州東方水務投資發展有限公司 is deemed to be interested in same number of shares in which 香港東方控股實業有限公司 is interested under the SFO.

Save as disclosed above, as at 30 June 2020, the Directors have not been notified by any persons who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## SHARE OPTIONS

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

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

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

- The Directors may, at its absolute discretion, make an offer to grant options to any employee of the Group, any non-executive Directors (including independent non-executive Directors), any suppliers, any customers, any adviser or any participants who shall be determined by the Directors from time to time on the basis that the Directors’ opinion as to his contribution to the development and growth of the Group.
- The maximum number of ordinary shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option schemes adopted by the Company shall not exceed 10% of the ordinary shares in issue upon the Listing (the Company may refresh this 10% limit under certain conditions) or 30% of the ordinary shares in issue from time to time where there are options to be granted and yet to be exercised.
- The total number of ordinary shares issued and to be issued upon exercise of the options granted to each qualified person under the Share Option Scheme or any other share option schemes adopted by the Company in any twelve-month period must not exceed 1% of the ordinary shares in issue. Any further grant of options which would result in the number of ordinary shares exceeding 1% requires a shareholders’ approval with the relevant participant and its associates abstaining from voting.
- The offer of a grant of share options may be accepted within 21 days from the date the offer together with the payment of nominal consideration of HK\$1 by the grantee. The period within which the options must be exercised shall be determined by the Directors at the time of grant and such period must expire no later than 10 years from the date the offer has been made to the grantees. All outstanding options shall lapse, among other circumstances, when the grantee ceases to be a participant of the Share Option Scheme by reason of the termination of his/her employment.
- The subscription price will be determined by the Board at the time the grant of the options is made and shall not be less than the highest of:
  - (i) the closing price of the shares as stated in the daily quotations sheet issued by the Stock Exchange on the grant date;
  - (ii) the average closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the grant date; and
  - (iii) the nominal value of a share.
- The Share Option Scheme is valid and effective for a period of ten years commencing on 25 October 2018 (being the date of adoption of the Share Option Scheme).

As at 30 June 2020, there was no options outstanding, granted, cancelled, exercised or lapsed.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed in this interim report, at no time during the six months ended 30 June 2020 was the Company, its holding company, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate or had exercised any such right.

## **PARTICULARS OF THE DIRECTORS' SERVICE CONTRACTS**

As at 30 June 2020, none of the Directors had entered or was proposing to enter into a service contract with the Company or any member of the Group which is not terminable within one year without payment of compensation other than statutory compensation.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the six months ended 30 June 2020, none of our Directors or their respective close associates (other than members of our Group) has any interest in a business, apart from the business of our Group, which competes or likely compete, either directly or indirectly, with the business of the Group which would require disclosure under Rule 8.10 of the Listing Rules.

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

Save as disclosed in the section "Connected Transactions" in the Company's annual report 2019, neither the Directors nor any entity connected with the Directors had a material interests, whether directly or indirectly, in any transactions, arrangements or contracts of significance to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during or at the end of the six months ended 30 June 2020.

## **CHANGE IN INFORMATION IN RESPECT OF DIRECTORS**

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

With effect from 4 August 2020, Mr. Li Yuen Fai Roger, an independent non-executive Director of the Company, has resigned as an independent non-executive director of 361 Degrees International Limited (stock code: 1361), a company listed on the Main Board of the Stock Exchange, due to his appointment as the Company Secretary and Chief Financial Officer of the same company on the same date.

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.

By Order of the Board

**KangLi International Holdings Limited**

**Liu Ping**

*Chairman*

Hong Kong, 28 August 2020