

**KANGLI INTERNATIONAL HOLDINGS LTD:****THIS COMPANY IS FACING STRONG HEADWINDS, TO BE SURE**

Last March's tariffs, imposed by The United States of America on imported items, targeting, amongst others, the People's Republic of China (PRC), will have, and shall continue to have, a telling effect on the profitability of companies, feeding many of the factories of the second-largest economy of the world with the commodities that keep the assembly lines in operation.

KangLi International Holdings Ltd () (Code: 6890, Main Board, The Stock Exchange of Hongkong Ltd) is far from being reserved in making mention as to the effect of the tariffs on the business of this galvanised, steel-products manufacturer in the Home Appliance Sector of the Jiangsu Province of the PRC.

At Page 15 of this Company's Global Offering Prospectus, dated October 31, 2018, management has stated:

*'During the Track Record Period (the 40 months to April 30, 2018) and up to the date of this prospectus, the United States imposed additional tariffs on imports from, amongst others, the PRC. The products which are subject to tariffs are set out in the U.S. Trade Action Section 232 ("Section 232") which was imposed on 23 March 2018 and U.S. Trade Action Section 301 ("Section 301") of which the third list containing products including, amongst others, refrigerators, washing machines and ovens, was imposed on 24 September 2018. As at the date of this prospectus, the tariffs remain effective and the rate of tariffs range from 10% to 25%. Although our Directors believe that during the Track Record Period and up to the date of this prospectus, we have not witnessed any decrease in orders placed by our customers due to the imposition of Section 232 and Section 301 tariffs, in view of the trade tariffs and anti-dumping measures imposed by the United States against China on our customers' products, our Directors consider this will lead to a reduction in the demand for their products in the United States. The reduction in demand for our customers' products might thereby lead to a reduction in demand for our Cold Rolled Steel Products, hence, our sales might decrease. In the event that these trade measures between the United States and China continue for an extended period of time, our results of operation could be materially and adversely affected... '.*

## **The Business Of KangLi International Holdings Ltd**

An ‘**OVERVIEW**’ of the business of KangLi International Holdings Ltd is given at Pages 111 and 113 of the Global Offering.

It states:

*‘We are a leading midstream galvanized steel products manufacturer in the home appliance sector in Jiangsu Province, the PRC. According to the F&S Report, we are the largest market player in the galvanized steel product market in Jiangsu Province in terms of revenue in 2017, and we ranked third with a market share of 3.9% in the galvanized steel product market in the home appliance sector in the PRC in terms of revenue in 2017. We ranked 16th with a market share of 0.5% in the galvanized steel product industry in the PRC by revenue in 2017. The market size by revenue of the galvanized steel product industry in the home appliance sector in Jiangsu Province amounted to approximately RMB3.5 billion in 2017. We primarily engage in production and sales of (i) unpainted galvanized steel products to 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, for their onward sales mainly to home appliance manufacturers; and (ii) Cold Rolled Steel Products to home appliance manufacturers for production of home appliances such as refrigerators, washing machines and ovens. Our Directors confirm that we differentiate ourselves from our customers who are midstream steel products processors, in the light that we, via our hot-dip galvanisation production line, process hot rolled steel coils/hard steel coil into unpainted galvanised steel products which are then sold to these midstream steel products processors for their subsequent processing such as cutting, polishing and color coating. In the light that white home appliances require certain qualities including corrosion resistance, galvanized steel products, which are coated with a layer of zinc on the surface of steel and with lower costs than stainless steel, are considered superior in terms of cost and durability, and thus our Directors and F&S consider that there are no direct substitutes to our Group’s products in the market. Our Cold Rolled Steel Products are sold under the trademark of “.”.*

*‘We procure hot rolled steel coils for processing into our Cold Rolled Steel Products at our production facility located in Changzhou City, Jiangsu Province. Our main products include (i) hard steel coil ( ) and (ii) hot-dip galvanized steel products ( ), which can be further categorized into painted galvanized steel products ( ) and unpainted galvanized steel products ( ). Hot-dip galvanized steel products, being our principal products, accounted for approximately 95.7%, 96.1%, 95.6% and 94.7% of our total revenue during the Track Record Period, respectively. For the years ended 31 December 2015, 2016 and 2017, we have managed to attain a growth of our hot-dip galvanized steel products in terms of revenue, which amounted to approximately RMB1,091.3 million, RMB1,215.3 million and RMB1,431.9 million for the same period, respectively...*

*‘Our customers primarily comprise midstream steel product processors and home appliance manufacturers which purchase our Cold Rolled Steel Products for the production of end products. For the years ended 31 December 2015, 2016 and 2017 and the four months ended 30 April 2018, our top five customers (taken, where relevant, on a*

*group basis) in aggregate accounted for approximately 61.1%, 60.7%, 60.1% and 61.8% of our total revenue of the corresponding periods, respectively. During the same period, revenue from our largest customer (taken on a group basis) accounted for approximately 22.8%, 18.9%, 19.0% and 22.9%, respectively, of our total revenue. To cater for customers' needs and meet the demand for our Cold Rolled Steel Products in a timely manner, we assign specific sales personnel from our sales department to communicate and deal with customers from different regions in the PRC and manage our overseas sales.'*

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