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XINGFA ALUMINIUM HOLDINGS LIMITED

興發鋁業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 98)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

1. Revenue increased by 46.8% to approximately RMB6,645.6 million (1H20: RMB4,526.6 million).
2. Sales volume increased by 21.8% to approximately 315,357 tonnes (1H20: 258,830 tonnes).
3. Profit attributable to shareholders of the Company increased by 53.7% to approximately RMB388.5 million (1H20: RMB252.8 million).
4. Earnings per share were RMB0.93 (1H20: RMB0.60).
5. The Board did not recommend any payment of an interim dividend for 1H21 (1H20: Nil).

RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Xingfa Aluminium Holdings Limited (“**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as “**Group**”, “**our Group**”, “**we**”, “**us**”, “**our**”, “**Xingfa Aluminium**”) prepared under International Financial Reporting Standards (“**IFRS**”) for the six months ended 30 June 2021 (“**1H21**”), together with the comparative figures for the corresponding period in 2020 (“**1H20**”) and the relevant explanatory notes as set out below. The consolidated results are unaudited, but have been reviewed by the audit committee of the Board and the Company’s independent auditors, KPMG.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2021	2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	6,645,617	4,526,551
Cost of sales	4 & 8	(5,888,958)	(3,950,294)
Gross profit		756,659	576,257
Other income		71,372	51,865
Distribution costs		(148,557)	(143,225)
Administrative expenses		(183,048)	(182,123)
(Charge)/reversal of impairment losses on trade receivables and other receivables		(19,608)	12,522
Profit from operations		476,818	315,296
Finance costs	4(a)	(37,080)	(50,037)
Share of profit of an associate		–	1,799
Gain on disposal of an associate		3,460	–
Profit before taxation	4	443,198	267,058
Income tax	5	(55,801)	(16,466)
Profit for the period		387,397	250,592
Attributable to:			
Equity shareholders of the Company		388,520	252,761
Non-controlling interests		(1,123)	(2,169)
Profit for the period		387,397	250,592
Earnings per share	7		
Basic (<i>RMB yuan</i>)		0.93	0.60
Diluted (<i>RMB yuan</i>)		0.93	0.60

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	387,397	250,592
Other comprehensive income for the period may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of operations outside the Mainland China	(2,571)	(83)
Cash flow hedge: net movement in the hedging reserves	20,139	55,023
Other comprehensive income for the period	17,568	54,940
Total comprehensive income for the period	404,965	305,532
Attributable to:		
Equity shareholders of the Company	406,088	307,701
Non-controlling interests	(1,123)	(2,169)
Total comprehensive income for the period	404,965	305,532

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021 – unaudited

(Expressed in Renminbi)

		At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
	Note		
Non-current assets			
Investment property		95,605	73,008
Property, plant and equipment		2,350,856	2,271,247
		2,446,461	2,344,255
Right-of-use assets		331,426	336,187
Intangible assets		3,572	3,779
Interest in an associate		–	6,319
Deferred tax assets		62,460	53,171
		2,843,919	2,743,711
Current assets			
Inventories and other contract costs	8	1,149,106	1,252,507
Trade and other receivables	9	4,372,286	3,759,646
Pledged deposits		231,770	170,558
Cash and cash equivalents		1,197,399	509,639
		6,950,561	5,692,350
Current liabilities			
Trade and other payables	10	1,996,124	3,321,622
Contract liabilities	11	272,390	197,670
Loans and borrowings		2,661,219	811,424
Lease liabilities		2,420	2,368
Current taxation		46,275	54,013
		4,978,428	4,387,097
Net current assets		1,972,133	1,305,253
Total assets less current liabilities		4,816,052	4,048,964
Non-current liabilities			
Loans and borrowings		776,708	318,868
Lease liabilities		5,701	6,523
Deferred income		33,748	14,663
Deferred tax liabilities		16,387	10,977
		832,544	351,031
NET ASSETS		3,983,508	3,697,933
CAPITAL AND RESERVES			
Share capital		3,742	3,732
Reserves		3,980,148	3,693,460
Total equity attributable to equity shareholders of the Company		3,983,890	3,697,192
Non-controlling interests		(382)	741
TOTAL EQUITY		3,983,508	3,697,933

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2021 – unaudited**(Expressed in Renminbi)*

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	574,767	266,414
Income tax paid	(70,899)	(57,872)
Land Appreciation Tax paid (“LAT”)	(73)	(460)
Net cash generated from operating activities	503,795	208,082
Investing activities		
Interest received	34,645	20,072
Payment for the purchase of property, plant and equipment	(330,670)	(231,929)
Payment for pledged deposits	(1,097,329)	(607,341)
Proceeds received upon maturity of pledged deposits	1,036,117	769,046
Payment for deposit of future contracts	(15,000)	(80,000)
Proceeds from future contracts investment	35,080	–
Proceeds from disposal of property, plant and equipment	1,557	30
Dividend received from an associate	27,655	–
Proceeds from disposal of an associate	10,000	–
Net cash used in investing activities	(297,945)	(130,122)
Financing activities		
Capital element of lease rentals paid	(770)	(2,537)
Interest element of lease rentals paid	(212)	(400)
Interest paid	(68,865)	(49,688)
Proceeds from loans and borrowings	2,116,429	628,045
Repayment of loans and borrowings	(1,439,294)	(530,751)
Proceeds from shares issued under share option scheme	5,653	–
Dividends paid to equity shareholders of the Company	(125,588)	(106,904)
Net cash generated from/(used in) financing activities	487,353	(62,235)
Net increase in cash and cash equivalents	693,203	15,725
Cash and cash equivalents at 1 January	509,639	528,003
Effect of foreign exchange rates changes	(5,443)	534
Cash and cash equivalents at 30 June	1,197,399	544,262

Notes:

1 BASIS OF PREPARATION

The unaudited interim financial information was extracted from the interim financial report of Xingfa Aluminium Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021.

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 of Hong Kong Limited, including compliance with International Accounting Standards (“**IAS**”) 34, Interim financial reporting, issued by the International Accounting Standards Board (“**IASB**”). It was authorized for issue on 26 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.

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 2020 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**”).

2 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:

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — phase 2*

None of these development 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.

3 REVENUE AND SEGMENT REPORTING

The Group manages its businesses by product lines. In a manner consistent with the way in which the 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 reportable segments:

- Industrial aluminium profiles: this segment manufactures and sells plain aluminium profiles, mainly for industrial usage.
- Construction aluminium profiles: this segment manufactures and sells aluminium profiles with surface finishing, including anodic oxidation aluminium profiles, electrophoresis coating aluminium profiles, powder coating aluminium profiles and PVDF coating aluminium profiles. Construction aluminium profiles are widely used in architecture decoration.
- All other segments: include the revenue generated from processing service contracts related to aluminium products, sale of office premises and residential properties and sale of aluminium panels, aluminium alloy, moulds and spare parts.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated of product lines		
— Construction aluminium profiles	4,949,735	3,457,194
— Industrial aluminium profiles	1,469,472	968,494
— Other products and services	226,410	100,863
	<u>6,645,617</u>	<u>4,526,551</u>
Disaggregated by geographical location of customers		
— Mainland China, except for Hong Kong	6,534,116	4,462,046
— Hong Kong	49,517	22,583
— Asia Pacific, except for Mainland China and Hong Kong	56,645	41,015
— Other regions	5,339	907
	<u>6,645,617</u>	<u>4,526,551</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 3(b).

During the six months ended 30 June 2021, the Group's customer base is diversified and does not include any individual customer (six months ended 30 June 2020: Nil) with whom transactions have exceeded 10% of the Group's revenue.

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by 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 on 30 June 2021 is set out below:

	Industrial aluminium profiles		Construction aluminium profiles		All other segments		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers recognised by point in time	<u>1,469,472</u>	<u>968,494</u>	<u>4,949,735</u>	<u>3,457,194</u>	<u>226,410</u>	<u>100,863</u>	<u>6,645,617</u>	<u>4,526,551</u>
Reportable segment profit								
Gross profit	<u>104,423</u>	<u>104,353</u>	<u>574,020</u>	<u>439,031</u>	<u>78,216</u>	<u>32,873</u>	<u>756,659</u>	<u>576,257</u>

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Reportable segment profit derived from the Group's external customers	756,659	576,257
Other income	71,372	51,865
Distribution costs	(148,557)	(143,225)
Administrative expenses	(183,048)	(182,123)
(Charge)/reversal of impairment losses on trade receivables and other receivables	(19,608)	12,522
Finance costs	(37,080)	(50,037)
Share of profit of an associate	—	1,799
Gain on disposal of an associate	<u>3,460</u>	<u>—</u>
Consolidated profit before taxation	<u>443,198</u>	<u>267,058</u>

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Interest expenses on bank loans	27,841	47,349
Interest expenses on discounted bills	9,027	1,558
Interest on lease liabilities	212	400
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	37,080	49,307
Cash flow hedges instruments reclassified from equity	—	730
	<hr/>	<hr/>
	37,080	50,037
	<hr/>	<hr/>

(b) Staff costs:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Salaries, wages, bonuses and benefits	413,349	324,786
Equity-settled share-based payment expenses	545	1,269
Contribution to defined contribution retirement schemes	35,964	19,805
	<hr/>	<hr/>
	449,858	345,860
	<hr/>	<hr/>

(c) Other items:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Depreciation charge		
— Investment properties	1,875	1,058
— Other property, plant and equipment	190,002	200,754
— Right-of-use assets	4,762	6,855
Amortisation cost of intangible assets	207	137
Net foreign exchange (gain)/loss	(2,913)	996
Net gain on cash flow hedging instruments reclassified from equity	—	(1,949)
Changes in fair value of futures contracts recognised as hedge ineffectiveness	(3,233)	(6,113)
Interest income	34,645	20,072
Cost of inventories (i)/(Note 8)	5,888,958	3,950,294
Research and development costs (ii)	272,876	200,898
	<hr/>	<hr/>

- (i) During the six months ended 30 June 2021, cost of inventories included RMB472,925,000 (six months ended 30 June 2020: RMB388,986,000) relating to staff costs, depreciation and net gain on cash flow hedging instruments reclassified from other comprehensive income, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.
- (ii) Research and development costs for the period ended 30 June 2021 included RMB54,529,000 (six months ended 30 June 2020: RMB54,653,000) relating to staff costs of employees which amount is also included in total staff costs as disclosed in Note 4(b).

5 INCOME TAX

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax		
Provision for PRC corporate income tax	53,909	15,084
Provision for Hong Kong Profits Tax	536	–
Provision for PRC Land Appreciation Tax	789	–
	<u>55,234</u>	<u>15,084</u>
Deferred tax		
Reversal and origination of temporary differences	567	1,382
	<u>55,801</u>	<u>16,466</u>

- (i) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for the six months ended 30 June 2021 (six months ended 30 June 2020: 25%) except for Guangdong Xingfa Aluminium Co., Ltd. (“**Guangdong Xingfa**”), Xingfa Aluminium (Chengdu) Co., Ltd. (“**Chengdu Xingfa**”), Guangdong Xingfa Aluminium (Henan) Co., Ltd. (“**Xingfa Henan**”) and Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. (“**Xingfa Jiangxi**”), which were certified as “High and New Technology Enterprises” (“**HNTE**”) and entitled to the preferential income tax rate of 15% for the six months ended 30 June 2021 (six months ended 30 June 2020: 15%).

Guangdong Xingfa and Xingfa Henan were qualified as HNTE and were entitled to the preferential income tax rate of 15% from 2018 to 2020 and are in the process of applying for the renewal of HNTE certificates from 2021 to 2023. In the opinion of the directors, Guangdong Xingfa and Xingfa Henan would be able to obtain the approvals of the preferential PRC corporate income tax rate for 2021 to 2023.

- (ii) At 30 June 2021, deferred tax liabilities of RMB13,686,000 (that of 2020: RMB10,977,000) have been provided for in this regard based on the expected dividends to be distributed from Guangdong Xingfa in the foreseeable future in respect of the profits generated since 1 January 2008.
- (iii) During the six months ended 30 June 2021, Guangdong Xingfa, Xingfa Henan, Xingfa Jiangxi and Chengdu Xingfa obtained approval from local tax authorities to claim super deduction on research and development expenses. As such, the income tax for the six months ended 30 June 2021 was reduced by RMB22,124,000 (six months ended 30 June 2020: RMB18,002,000). Such additional tax deduction on research and development expenses equals 75% (2020: 75%) of the amount of research and development expenses actually incurred.

6 DIVIDENDS

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

The directors do not propose any payment of interim dividends for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2021 of HKD0.36 per share (six months ended 30 June 2020: HKD0.28 per share)	<u>125,588</u>	<u>106,904</u>

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB388,520,000 (six months ended 30 June 2020: RMB252,761,000) and the weighted average number of 418,471,000 ordinary shares (six months ended 30 June 2020: 418,000,000 shares) in issue during the interim period.

	Six months ended 30 June	
	2021	2020
	'000	'000
Issued ordinary shares at 1 January	418,068	418,000
Effect of share option exercised	<u>403</u>	<u>—</u>
Weighted average number of ordinary shares at 30 June	<u>418,471</u>	<u>418,000</u>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB388,520,000 (six months ended 30 June 2020: RMB252,761,000) and the weighted average number of ordinary shares of 419,832,000 shares (six months ended 30 June 2020: 418,564,000 shares), calculated as follows.

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit attributable to ordinary equity shareholders (diluted)	<u>388,520</u>	<u>252,761</u>

(ii) *Weighted average number of ordinary shares (diluted)*

	Six months ended 30 June	
	2021	2020
	'000	'000
Weighted average number of ordinary shares at 30 June	418,471	418,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	1,361	564
Weighted average number of ordinary shares (diluted) at 30 June	419,832	418,564

8 INVENTORIES AND OTHER CONTRACT COSTS

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Aluminium profiles manufacturing		
— Raw materials	203,771	383,304
— Work in progress	144,495	132,942
— Finished goods	565,273	485,981
	913,539	1,002,227
Completed properties for sale		
— Land use right	28,145	28,273
— Deed tax	2,826	2,839
— Construction costs	204,596	219,168
	235,567	250,280
	1,149,106	1,252,507

Note:

During the six months ended 30 June 2021, inventories of RMB5,888,958,000 (six months ended 30 June 2020: RMB3,950,294,000) were recognised as an expense and included in “cost of sales”. No inventory provision was recorded in this period (six months ended 30 June 2020: Nil).

9 TRADE AND OTHER RECEIVABLES

As of the end of the reporting period, the aging analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 month	2,121,908	1,671,973
1 to 3 months	927,922	839,427
3 to 6 months	410,741	676,807
Over 6 months	469,415	223,214
Trade debtors and bills receivable, net of allowance for doubtful debts (i)(ii)	3,929,986	3,411,421
Other debtors, net of loss allowance (iii)	117,939	106,927
Financial assets measured at amortised cost	4,047,925	3,518,348
Dividend receivable	—	27,655
Deposits and prepayments	282,577	199,172
Derivative financial instruments — held as cash flow hedging instruments (iv)	41,784	14,471
	<u>4,372,286</u>	<u>3,759,646</u>

- (i) Trade debtors and bills receivable are due within 30 days to 365 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.
- (ii) Certain bills receivable with carrying value of RMB754,879,000 were pledged as securities for bills payable of the Group as at 30 June 2021 (31 December 2020: RMB671,890,000).
- (iii) As at 30 June 2021, loss allowances of RMB2,377,000 was recognised on other debtors (31 December 2020: RMB2,482,000).
- (iv) As at 30 June 2021, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those future contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of the futures contracts but instead designates the futures contracts in its entirety in a hedging relationship.

The balance of futures contracts of RMB41,784,000 represented the fair values of the futures contracts as at 30 June 2021 (31 December 2020: RMB14,471,000).

10 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Within 1 month	745,550	706,016
1 to 3 months	308,412	594,588
3 to 6 months	207,895	747,522
Over 6 months	58,438	520,287
	<u>1,320,295</u>	<u>2,568,413</u>
Trade creditors and bills payable		
Trade payables	876,300	951,766
Bills payable	443,995	1,616,647
Accrued payroll and benefits	169,841	265,037
Other payables and accruals	485,546	470,096
Interest payable	2,352	1,796
Deferred income	18,090	16,280
	<u>1,996,124</u>	<u>3,321,622</u>
Financial liabilities measured at amortised cost		

11 CONTRACT LIABILITIES

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Aluminium profiles		
— Billings in advance of performance	271,009	194,408
Completed properties for sale		
— Forward sales deposits and instalments received	1,381	3,262
	<u>272,390</u>	<u>197,670</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In first half of 2021, although the COVID-19 pandemic situation remained severe in the PRC and overseas, with the effective vaccination and the infrastructure stimulus policies, the global economy is on the path of recovery. Meanwhile, as the release of electrolytic aluminium production capacity did not keep up with the recovery of demand, the inventory level went below expectation. This boosted the unit price of aluminium to rise and resulted in a strong inflation cycle. Under the new requirements “three red lines (三道紅線)”, the domestic real estate market in the Mainland China became highly segmented. Some real estate enterprises encountered difficulties in operation and default of bonds and commercial papers became more common, further highlighting the head effect (頭部效應) in the real estate industry. The Group’s customers were mainly top 30 real estate enterprises in the PRC including Agile, Vanke, Sunac and China Resources, etc.. With the steady progression of domestic real estate projects, the demand for aluminium by property developers continued to rise, thus driving significant increase in the Group’s sales order during the period.

BUSINESS REVIEW

Xingfa Aluminium is one of the leading aluminium profiles manufacturers in the PRC and is principally engaged in the manufacture and sale of aluminium profiles which are being used as construction and industrial materials. Since 2002, the Group has been awarded the “No. 1 of the National Construction Aluminium Profiles Enterprise” by China Non-Ferrous Metals Fabrication Industrial Association for three consecutive sessions. As of 30 June 2021, the Group had obtained approximately 1,700 national patents and participated in the drafting of approximately 120 national and industry standards. Currently, we are also one of the world’s largest suppliers of electrical conductive aluminium profiles for metro vehicles. In recent five years, the Group has focused on gradually establishing our sales outlets in the prefecture-level cities in Southern China and Eastern China, and at the same time, it has invested its resources to establish sales outlets in key cities of relatively under-developed regions, and apparent positive results were seen from the regional sales data.

Due to the volatile impact of the COVID-19 pandemic and the global situation shaped by the continuing tensions between the PRC and the United States, it was challenging for various industries in the first half of 2021. Xingfa Aluminium overcame challenges under the difficult condition and continued being favoured by our customers, achieving positive double-digit growth in sales, production volume and revenue. The Group maintained good cooperation with top 30 real estate developers in the PRC and received constant orders. The Group reduced supplies to developers of smaller scale which lowered its business risks effectively. Leveraged on the Group’s industrial foundation and the technological and service advantages in the building façade aspect, “Xingfa System (興發系統)”, the Group’s self-developed door and window product, was highly recognised across the industry. Currently, the number of orders for “Xingfa System” is increasing rapidly.

During the period under review, the Group continued to strive to participate in landmark construction projects and was approved to be the main supplier of aluminium profiles for projects including the Memorial Hall of the 100th Anniversary of the Communist Party of China* (中國共產黨100周年紀念館) and the Chengdu Tianfu International Airport. The Chengdu Tianfu International Airport was officially opened on 27 June this year, attested the high market recognition for the Group's products quality.

During the period under review, owing to the continuing outbreak of the COVID-19 pandemic, especially the spread of mutated virus in the Southeast Asia, the Group's overseas development, especially the plan to set up factories in Australia was greatly interrupted. Under the difficult surrounding environment, the Group still strived to supply aluminium profiles to foreign countries including Australia, New Zealand, Vietnam, South Africa, and certain countries in Asia, Europe, South America and the Middle East, with the number of orders remained almost the same as the corresponding period last year. However, due to the significant increase in sea freight rates and the shortage of sea freight container, shipping orders abroad, particularly to Southeast Asia was seriously affected by the pandemic. With the widespread of vaccination for the COVID-19, it is expected that the overseas pandemic will be controlled gradually in second half of the year and the Group's overseas sales and shipments will also be gradually resumed.

Revenue

For the six months ended 30 June 2021, the revenue of the Group significantly increased by 46.8% to RMB6,645.6 million (first half of 2020: RMB4,526.6 million), mainly benefited from significant increase in prices of aluminium raw materials. The sales recorded a year-on-year increase of 21.8% to 315,357 tonnes (first half of 2020: 258,830 tonnes), mainly attributable to business growth and the effect of low base number of the corresponding period last year due to the pandemic. The sales of construction aluminium profiles and industrial aluminium profiles accounted for 74.5% and 22.1% of the revenue respectively. The gross profit of the Group for the period increased by 31.3% year-on-year to RMB756.7 million. The gross profit margin was 11.4% (first half of 2020: 12.7%). The decrease in gross profit margin was due to the overall increase in the prices of aluminium ingots. During the period under review, the profit attributable to owners of the Company was RMB388.5 million (first half of 2020: RMB252.8 million), representing a year-on-year increase of 53.7%.

Construction aluminium profiles

The construction aluminium profiles are aluminium profiles with surface finishing, which are mainly used for the construction and installation of doors and windows, curtain walls, ceilings and blinds and other decorative products.

In first half of 2021, the revenue of construction aluminium profiles increased by 43.2% to approximately RMB4,949.7 (first half of 2020: RMB3,457.2 million), and sales volume increased by 20.0% to approximately 234,348 tonnes (first half of 2020: 195,312 tonnes).

Industrial aluminium profiles

The industrial aluminium profiles are mainly plain aluminium profiles, which can be used as container box such as new conductive profiles of urban railway locomotives and ship components etc. Moreover, the industrial aluminium profiles can also be produced in other different forms and shapes, such as central processing unit (CPU) and display thermal sinks and electronic consumer product frames.

The revenue of industrial aluminium profiles in the first half of 2021 increased by 51.7% to approximately RMB1,469.5 million (first half of 2020: RMB968.5 million), and sales volume increased by 26.2% to approximately 78,164 tonnes (first half of 2020: approximately 61,931 tonnes).

Prospect

Looking forward, as the real estate industry has accelerated to concentrate, the industry segmentation among real estate developers will continue to intensify. The Group will give priority to leading real estate developers for close long-term cooperation when selecting customers. It will also strategically reduce orders from certain developers of smaller scale to further improve its customer mix and reduce operational risks. Moving forward to second half of 2021, the Group believes the resource sector will continue to be benefited by the economic recovery and inflation expectation. The demand and production volume of aluminium will maintain an increasing trend, favouring the Group's business development.

Xingfa Aluminium is actively carrying out the upgrading plan of intelligent production base and digital production management, so as to improve the Group's production efficiency, risk resistance ability and flexibility in coping with uncertainty. All of our production lines are currently operating at full capacity level. The Group also planned to further invest to extend its productivity, to implement the data transformation and digitalisation of production line and production management, so as to precisely manage and optimise production lines, to significantly reduce scrap volume, improve production effectiveness and efficiency, and ensure product quality. Moreover, the Group is also synchronously improving our service, technology and processing quality to enhance the overall long-term operational efficiency, increase product mix and improve quality from multiple perspectives in a bid to provide customers with top quality aluminium profiles.

The Group strengthens its expansion in the industrial aluminium profile market and sticks to its strategy to achieve dual-engine development in construction aluminium profiles and industrial aluminium profiles based on its market and technological experiences in construction aluminium profile. The precision manufacturing base situated at Sanshui Industrial Park in Guangdong Province started trial production in May 2021 on schedule and is currently undergoing equipment debugging and training production staff. The said base is planned to produce high-end industrial aluminum profiles for sectors such as high-end electronic communication equipment, heat cooling equipment, medical equipment and military applications, and is an important step for the Group to implement the dual-engine development. In recent years, the trend of lightweight transport development becomes clearer, the Group devoted tremendous efforts in researching and developing the aluminum profiles suitable for the electrical conductive parts of light railway, with an aim to grasp future development opportunities of lightweight transport development. Owing to the high technical

content and barriers of entry, as well as the huge investment in the preliminary stage, market competition is not intense. As the leader, the Group possesses first mover advantage and can enjoy the economies of scale in the long run.

In the long run, despite various market factors and the volatile development of the pandemic, the Group will remain cautious and optimistic about the prospects of the aluminium profile markets and remain confident in our business development. The Group as a leading enterprise will benefit from the continuous industry integration. The challenges to be brought by market environment will provide opportunities for the Group to strengthen its leading position. Meanwhile, the application of industrial aluminium profiles will become more extensive, which will have a positive impact on the Group's business with the rollout of more results in the research and development of industrial aluminum profiles. The Group will continue to explore new markets and customers, expand its external business and enhance operational efficiency, so as to constantly enhance its corporate values and bring sustainable returns to our shareholders and stakeholders.

FINANCIAL REVIEW

Revenue

The revenue and sales volume of the Group for 1H21 were increased significantly by 46.8% and 21.8% year-on-year to approximately RMB6,645.6 million and 315,357 tonnes respectively (1H20: RMB4,526.6 million and 258,830 tonnes respectively). The increase were mainly attributable to the combined effects of significant increase in prices of aluminium raw materials, business growth and the low base number of 1H20 due to the COVID-19 pandemic.

The sales volume of construction aluminium profiles for 1H21 increased by 20.0% to 234,348 tonnes (1H20: 195,312 tonnes). Meanwhile, the sales volume of industrial profiles for 1H21 also increased by 26.2% to 78,164 tonnes (1H20: 61,931 tonnes).

The following table sets forth the details of our revenue by category for 1H21 and 1H20:

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Manufacturing and sale of aluminium profiles		
— Construction aluminium profiles	4,949,735	3,457,194
— Industrial aluminium profiles	1,469,472	968,494
	6,419,207	4,425,688
Others (<i>Note</i>)	226,410	100,863
Total	6,645,617	4,526,551

Note: Our Group's other revenue represents revenue generated from service contracts; sale of aluminium alloy, moulds and spare parts; and sale of properties.

Gross profit and gross profit margin

The gross profit of the Group for 1H21 increased by 31.3% year-on-year to approximately RMB756.7 million (1H20: RMB576.3 million).

The overall gross profit margin for 1H21 of the Group decreased to 11.4%, while the sales to production ratio decreased slightly at 97.2%.

The following table sets forth the gross profit margin of our segments:

	Six months ended 30 June	
	2021	2020
Overall	11.4%	12.7%
Construction aluminium profiles	11.6%	12.7%
Industrial aluminium profiles	7.1%	10.8%
All other segments (<i>Note</i>)	34.5%	32.6%

Note: Our Group's all other segments include processing service contracts related to aluminium products, sale of office premises and residential properties and sale of aluminium panels, aluminium alloy, moulds and spare parts.

The gross profit margin of construction aluminium profiles and industrial aluminium profiles decreased to 11.6% and 7.1% respectively while the gross profit margin of all other segments increased to 34.5%.

Other income

The other income of the Group for 1H21 increased by 37.6% year-on-year to approximately RMB71.4 million (1H20: RMB51.9 million), which was mainly attributable to the increase in interest income.

Distribution costs

The distribution costs of the Group for 1H21 increased by 3.7% to approximately RMB148.6 million (1H20: RMB143.2 million), which was 2.2% of the revenue (1H20: 3.2%). During 1H21, the distribution costs increased as compared to that of 1H20 because there was a general increase in staff costs and other operating expenses.

Administrative expenses

The administrative expenses of the Group for 1H21 remained stable at RMB183.0 million (1H20: RMB182.1 million), which was 2.8% of the revenue (1H20: 4.0%).

Profit attributable to shareholders of the Company and net profit margin

The profit attributable to shareholders of the Company for 1H21 increased by 53.7% to approximately RMB388.5 million (1H20: RMB252.8 million), whilst the net profit margin increased to 5.8% (1H20: 5.6%).

The Board believes that such increase in profit was primarily attributable to overall business growth and the effect of low base number of 1H20 due to the COVID-19 pandemic.

ANALYSIS OF FINANCIAL POSITION

Current and quick ratios

The following table sets out our Group's current and quick ratios as at 30 June 2021 and 31 December 2020:

	At 30 June 2021	At 31 December 2020
Current ratio (<i>Note i</i>)	1.40	1.30
Quick ratio (<i>Note ii</i>)	1.17	1.01

Note:

- (i) Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the period/year.
- (ii) Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the period/year.

Both ratios increased as at 30 June 2021 as compared to that as at 31 December 2020. Such increase was in line with higher level of cash and cash equivalents as of 30 June 2021 due to higher utilisation of banking facilities.

Gearing ratio

The following table sets out our Group's gearing ratio as at 30 June 2021 and 31 December 2020:

	At 30 June 2021	At 31 December 2020
Gearing ratio (<i>Note</i>)	35.1%	13.4%

Note:

Gearing ratio is calculated based on the loans and borrowings divided by total assets and multiplied by 100%.

The gearing ratio as at 30 June 2021 increased as compared to that as at 31 December 2020, mainly because the Group had utilised more banking facilities in view of the business growth during the period under review.

Inventory turnover days

The following table sets out our Group's inventory turnover days during 1H21 and 1H20:

	Six months ended 30 June	
	2021	2020
Inventory turnover days (<i>Note</i>)	37	56

Note:

Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the periods divided by the total cost of sales during the periods multiplied by 181 days.

Inventories balance as at the respective periods ended 30 June 2021 and 2020 represents aluminium profiles segment including our raw materials, work in progress and the unsold finished goods and property under development for sale.

The Group's inventory turnover days for 1H21 decreased as compared to that of 1H20. This was mainly because the Group has recovered from the delays of production and delivery of products in 1H20 due to the COVID-19 pandemic.

Debtors' turnover days

The following table sets out our Group's debtors' turnover days during 1H21 and 1H20:

	Six months ended 30 June	
	2021	2020
Debtors' turnover days (<i>Note</i>)	100	112

Note:

Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables (net of allowance for doubtful debts) for the periods divided by revenue during the periods multiplied by 181 days.

The debtor's turnover days decreased in 1H21 as compared to that of 1H20 because the repayment schedules of the debtors have improved.

Creditors' turnover days

The following table sets out our Group's creditors' turnover days during 1H21 and 1H20:

	Six months ended 30 June	
	2021	2020
Creditors' turnover days (<i>Note</i>)	60	94

Note:

Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the periods divided by the total cost of sales during the periods multiplied by 181 days.

Certain creditor's repayment schedules had been sped up in 1H21 due to the recovery from COVID-19 pandemic as compared to that of 1H20.

Loans and borrowings

As at 30 June 2021, the Group's loans and borrowings amounted to approximately RMB3,437.9 million (31 December 2020: RMB1,130.3 million), among which amounted to approximately RMB2,547.8 million were at fixed interest rates.

Banking facilities and guarantee

As at 30 June 2021, the banking facilities of the Group amounted to approximately RMB10,231.3 million (31 December 2020: RMB8,755.0 million), of which approximately RMB4,070.3 million were utilized (31 December 2020: RMB2,265.0 million).

No banking facilities were guaranteed by related parties.

Capital structure

As at 30 June 2021, the Company had 419,308,334 ordinary shares of HK\$0.01 each in issue. 1,240,134 shares has been issued due to the exercise of share options by the Directors and employees under the Share Option Scheme. No shares of the Company has been repurchased during 1H21.

Financial instruments for hedging purposes

As at 30 June 2021, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those futures contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of the futures contracts but instead designates the futures contract in its entirety in a hedging relationship.

Treasury Policies

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

Certain sales and purchases of inventories of the Group are denominated in US dollars and HK dollars. Furthermore, certain trade receivables, trade payables, loans and borrowings and bank balances are denominated in US dollars and HK dollars, therefore exposing the Group to the currency risk of US dollars and HK dollars.

CASH FLOW HIGHLIGHTS

The following table sets out our Group's cash flow highlights during 1H21 and 1H20:

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	503,795	208,082
Acquisitions of property, plant and equipment	(330,670)	(231,929)
Payment for deposit of futures contracts	(15,000)	(80,000)
Proceeds from futures contracts investment	35,080	—
Net (decrease)/increase in pledged deposits	(61,212)	161,705
Interest paid	(68,865)	(49,688)
Net increase in bank borrowings	677,135	97,294
Dividends paid	(125,588)	(106,904)

We generally finance our operations through internally generated cash flows, bank borrowings and our cash and cash equivalents. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

As at 30 June 2021, the Group had cash and cash equivalents of approximately RMB1,197.4 million (31 December 2020: RMB509.6 million), among which 4.9% was held in US dollars, 4.9% was held in HK dollars and the remaining balance was held in RMB.

PROPERTY DEVELOPMENT

“Xingfa Plaza (興發大廈)”, a property project wholly-owned by the Group, is located at the northern side of Jihua Road and the western side of Changang Road, Chancheng District, Foshan City, Guangdong Province, the PRC. The land use rights of the property have been granted for a term of 40 years expiring on 19 May 2050 for commercial service, office, culture and entertainment uses. The property comprises a parcel of land with a site area of approximately 16,961.36 sq.m. and the gross floor area is approximately 123,527.29 sq.m.. As at 30 June 2021, around 41% of the saleable floor area have been delivered to the customers.

During 1H21, 3 units of Xingfa Plaza had been sold and delivered, The revenue recognized from such sale for 1H21 amounted to approximately RMB3.0 million (1H20: RMB7.0 million).

SUBSEQUENT EVENT

On 26 August 2021, Guangdong United Assets and Equity Exchange notified the Group of the result of listing-for-capital-injection in respect of the subscription of new registered capital of Guangdong Xingfa Environmental Technology Company Limited* (廣東興發環境科技有限公司) (“**Xingfa Environmental**”), an indirect wholly-owned subsidiary of the Company as at the date of this announcement, which may result in deemed disposal of 60% of the enlarged equity interest of Xingfa Environmental. Currently, our Group is in the process of assessing the successful bidder and finalizing the major terms of the capital injection agreement.

The Company will make further announcement(s), if necessary, in accordance with the requirements of the Rules (“**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”).

Save as disclosed above, there was no significant subsequent event affecting the Group that had occurred since the end of 1H21.

HUMAN RESOURCES

As at 30 June 2021, our Group employed a total of approximately 8,764 full time employees in the PRC and Hong Kong which included management staff, technicians, salespersons and workers. In 1H21, our Group’s total expenses on the remuneration of employees were approximately RMB449.9 million (1H20: approximately RMB345.9 million), representing approximately 6.8% (1H20: 7.6%) of the revenue of our Group. Our Group’s emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance (Cap. 485 of the laws of Hong Kong) for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees), housing fund, medical insurance, unemployment insurance and other relevant insurance (according to the PRC rules and regulations for PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. In-house and external training programmes are provided as and when required.

INTERIM DIVIDEND

The Directors do not propose the payment of interim dividend for 1H21 (1H20: Nil).

CORPORATE GOVERNANCE

In the opinion of the Directors, save as mentioned below, the Company had complied with all the code provisions of the Corporate Governance Code (“**Corporate Governance Code**”) as set out in Appendix 14 to the Listing Rules for 1H21.

According to the code provision A.1.1 of the Corporate Governance Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During 1H21, the Board has held one full board meeting. The Company has deviated from this code provision as the Board has discussed the company matters through exchange of emails and informal meetings among the Directors and has obtained board consent through circulating written resolutions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors’ securities transactions. After having made specific enquiry with all Directors, our Company has received confirmations from all Directors that they have complied with the required standards as set out in the Model Code for 1H21.

The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the employees who are likely to be in possession of unpublished inside information of the Company.

REVIEW BY THE AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has an audit committee which is accountable to the Board and the primary duties of the audit committee include the review and supervision of our Group’s financial reporting process and internal control measures.

The audit committee of the Board is composed of three independent non-executive Directors of the Company namely, Mr. CHEN Mo, Mr. HO Kwan Yiu and Mr. LAM Ying Hung, Andy (“**Mr. LAM**”) and one non-executive Director namely, Ms. XIE Jingyun. Mr. LAM, who has professional qualification and experience in financial matters, serves as the chairman of the audit committee.

The audit committee of the Board has met with the management and external auditors of the Company and has reviewed the consolidated results of our Group for 1H21.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities during 1H21.

PUBLICATION OF 2021 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xingfa.com), and the 2021 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board
Xingfa Aluminium Holdings Limited
LIU Libin
Chairman

26 August 2021

As at the date of this announcement, the directors of the Company are as follows:

Executive Directors:

Mr. LIU Libin (*Chairman*)
Mr. LIAO Yuqing (*Chief Executive Officer*)
Mr. WANG Lei
Mr. LAW Yung Koon
Mr. WANG Zhihua
Mr. LUO Jianfeng

Non-executive Directors:

Mr. ZUO Manlun
Ms. XIE Jingyun

Independent non-executive Directors:

Mr. CHEN Mo
Mr. HO Kwan Yiu
Mr. LAM Ying Hung, Andy
Mr. WEN Xianjun

* *For identification purpose only*