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## Xingye Alloy Materials Group Limited 興業合金材料集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 505)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The board (the “**Board**”) of directors (the “**Directors**”) of Xingye Alloy Materials Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2022 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2022

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2022</b>	<b>2021</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue</b>	4	<b>3,222,331</b>	3,167,835
Cost of sales		<u>(2,946,403)</u>	<u>(2,728,972)</u>
<b>Gross profit</b>		<b>275,928</b>	438,863
Other income		<b>52,694</b>	7,904
Distribution expenses		<b>(30,833)</b>	(29,225)
Administrative expenses		<b>(158,599)</b>	(138,828)
Other expenses	5	<u>(113)</u>	<u>(59,577)</u>
<b>Profit from operations</b>		<b>139,077</b>	219,137
Finance income		<b>14,461</b>	9,941
Finance costs		<u>(18,655)</u>	<u>(21,829)</u>
<b>Net finance costs</b>	6(a)	<b>(4,194)</b>	(11,888)

		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2022</b>	<b>2021</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Profit before taxation</b>		<b>134,883</b>	207,249
Income tax	7	<u><b>(15,317)</b></u>	<u>(44,875)</u>
<b>Profit for the period</b>		<b><u>119,566</u></b>	<b><u>162,374</u></b>
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>119,447</b>	162,138
Non-controlling interests		<u><b>119</b></u>	<u>236</u>
<b>Profit for the period</b>		<b><u>119,566</u></b>	<b><u>162,374</u></b>
<b>Earnings per share</b>			
– Basic ( <i>RMB cents</i> )	8(a)	<b>13.36</b>	19.94
– Diluted ( <i>RMB cents</i> )	8(b)	<b><u>13.36</u></b>	<b><u>19.88</u></b>

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Profit for the period</b>	<b>119,566</b>	162,374
<b>Other comprehensive income for the period (after tax and reclassification adjustments):</b>		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<u>2,170</u>	<u>(256)</u>
<b>Total comprehensive income for the period</b>	<u><b>121,736</b></u>	<u>162,118</u>
<b>Attributable to:</b>		
Equity shareholders of the Company	<b>121,617</b>	161,882
Non-controlling interests	<u>119</u>	<u>236</u>
<b>Total comprehensive income for the period</b>	<u><b>121,736</b></u>	<u>162,118</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Note</i>	At <b>30 June</b> <b>2022</b> <b>RMB'000</b> <b>(unaudited)</b>	At 31 December 2021 <b>RMB'000</b> <b>(audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment		<b>866,312</b>	866,912
Right-of-use assets		<b>68,695</b>	70,435
Deposits for acquisition of property, plant and equipment		<b>22,488</b>	5,916
Deferred tax assets		<b>31,486</b>	17,164
Other non-current assets		<b>7,490</b>	7,490
		<b>996,471</b>	967,917
<b>Current assets</b>			
Inventories	9	<b>1,119,519</b>	1,217,711
Trade and other receivables	10	<b>435,235</b>	461,169
Derivative financial instruments		<b>17,041</b>	–
Restricted bank deposits		<b>737,896</b>	566,228
Bank deposits with original maturity over three months		<b>100,327</b>	124,072
Cash and cash equivalents		<b>665,131</b>	235,844
		<b>3,075,149</b>	2,605,024

	<i>Note</i>	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
<b>Current liabilities</b>			
Trade and other payables	11	1,219,388	1,062,213
Interest-bearing borrowings	12	991,009	822,927
Derivative financial instruments		200	3,889
Lease liabilities		1,978	2,010
Income tax payable		27,869	27,569
		<u>2,240,444</u>	<u>1,918,608</u>
<b>Net current assets</b>		<u>834,705</u>	<u>686,416</u>
<b>Total assets less current liabilities</b>		<u>1,831,176</u>	<u>1,654,333</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings	12	92,021	39,860
Lease liabilities		1,639	2,911
Deferred income		40,683	38,191
Deferred tax liabilities		4,500	4,500
		<u>138,843</u>	<u>85,462</u>
<b>Net assets</b>		<u>1,692,333</u>	<u>1,568,871</u>
<b>Capital and reserves</b>			
Share capital		80,774	80,774
Reserves		<u>1,608,914</u>	<u>1,485,571</u>
<b>Total equity attributable to equity shareholders of the Company</b>		<u>1,689,688</u>	<u>1,566,345</u>
<b>Non-controlling interests</b>		<u>2,645</u>	<u>2,526</u>
<b>Total equity</b>		<u>1,692,333</u>	<u>1,568,871</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

### 1 REPORTING ENTITY AND BACKGROUND INFORMATION

Xingye Alloy Materials Group Limited (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2007 under the Companies Act, 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 27 December 2007 (the “**Listing Date**”).

The interim financial report as at and for the six months ended 30 June 2022 comprises the Company and its subsidiaries (together referred to as the “**Group**”). The principal activities of the Group are the manufacture and sale of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online gaming business in August 2016, the Group’s activities also include developing, publishing and operating online games and provision of related services.

### 2 BASIS OF PREPARATION

The preliminary announcement of the Company’s interim results 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.

The Company’s condensed consolidated interim financial information (“**Interim Financial Information**”) has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”) and has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The preparation of Interim Financial Information in conformity with IAS 34 requires management to make judgments, 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 Information contains unaudited 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 2021 annual financial statements. The unaudited condensed consolidated 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**”).

### **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 IAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

None of these developments has 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 the Company's interim financial report for the six months ended 30 June 2022.

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

### **4 REVENUE AND SEGMENT REPORTING**

#### **(a) Disaggregation of revenue**

The principal activities of the Group are (i) the manufacture and sales of high precision copper plates and strips, trading of raw materials, provision of processing services; and (ii) developing, publishing and operating online games and provision of related services.

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Revenue from contracts with customers within the scope of IFRS15</b>		
Disaggregated by major products or service lines:		
Copper products related:		
– Sales of high precision copper plates and strips	3,037,965	2,978,349
– Processing service fees	132,818	129,035
– Trading of raw materials	47,242	53,743
	<u>3,218,025</u>	<u>3,161,127</u>
Online games related:		
– Publishing and operating online games	4,146	5,956
– Others	160	752
	<u>4,306</u>	<u>6,708</u>
	<u><u>3,222,331</u></u>	<u><u>3,167,835</u></u>
Disaggregated by timing of revenue recognition:		
– Point in time	3,218,025	3,161,127
– Over time	4,306	6,708
	<u>3,222,331</u>	<u>3,167,835</u>

Disaggregated by geographical location of customers:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
– Mainland China	2,746,352	2,860,960
– Taiwan, China	64,656	51,428
– South Korea	62,958	11,178
– Hong Kong, China	50,565	56,154
– Bangladesh	48,115	32,713
– India	33,470	25,933
– Thailand	24,073	24,667
– Germany	23,062	–
– Vietnam	20,219	19,753
– Other locations	148,861	85,049
	<u>3,222,331</u>	<u>3,167,835</u>

The Group's customer base is diversified and no single customer contributed over 10% of the total revenue of the Group for both the six months ended 30 June 2022 and 2021.

**(b) Segment reporting**

IFRS 8, *Operating Segments*, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the Group's chief operating decision maker for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment.

As the assets and liabilities by segment is not a measure used by the Group's chief operating decision maker to allocate resources and assess performance, the segment assets and liabilities of the Group are not reported to the Group's chief operating decision maker regularly. As a result, reportable segment assets and liabilities have not been presented in the consolidated financial statements.

**5 OTHER EXPENSES**

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Credit losses allowance on trade and other receivables	–	1,620
Losses on disposal of property, plant and equipment	<b>17</b>	–
Net losses on derivative financial instruments	–	57,953
Others	<b>96</b>	4
	<b>113</b>	<b>59,577</b>

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after crediting/(charging):

### (a) Net finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest income from bank deposits	12,854	8,027
Gains from structured bank deposits	–	157
Net foreign exchange gains	<u>1,607</u>	<u>1,757</u>
Finance income	<u>14,461</u>	<u>9,941</u>
Interest expenses on interest-bearing borrowings	(19,406)	(22,263)
Interest on lease liabilities	(98)	(93)
Less: interest expenses capitalised*	<u>849</u>	<u>527</u>
Net interest expenses recognised in profit or loss	<u>(18,655)</u>	<u>(21,829)</u>
Finance costs	<u>(18,655)</u>	<u>(21,829)</u>
Net finance costs	<u>(4,194)</u>	<u>(11,888)</u>

\* The borrowing costs were capitalised at rates of 4.3% per annum during the six months ended 30 June 2022 (six months ended 30 June 2021: 4.3%).

(b) Other items

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories *	2,945,004	2,727,108
Research and development expenses (included in administrative expenses)	105,836	86,451
Depreciation		
– Property, plant and equipment	50,907	52,494
– Right-of-use assets	1,740	1,301
Credit loss allowance on trade and other receivables net of reversals	(1,419)	1,620
Government grants	9,559	6,075

\* Cost of inventories includes depreciation of RMB25,292,000 (six months ended 30 June 2021: RMB29,925,000), which is also included in the total amount of depreciation expenses disclosed separately below.

7 INCOME TAX

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Current tax</b>		
Provision for the period	39,556	33,962
(Over)/under-provision in respect of prior year	(9,917)	1,457
	<u>29,639</u>	<u>35,419</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(14,322)	9,456
	<u>15,317</u>	<u>44,875</u>

The provision for PRC Corporate Income Tax is calculated by applying the estimated annual effective rates of taxation that are expected to be applicable to each entity operating in the PRC.

The Group's consolidated effective tax rate for the six months ended 30 June 2022 was 11% (six months ended 30 June 2021: 22%). The decrease in the effective tax rate was mainly because the Group's two major subsidiaries enjoyed 100% additional deduction for qualified research and development expenses.

## 8 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 RMB119,447,000 (six months ended 30 June 2021: RMB162,138,000) and the weighted average number of 893,872,173 ordinary shares (six months ended 30 June 2021: 813,263,173 ordinary shares) in issue during the interim period.

### (b) Diluted earnings per share

As at 30 June 2021, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB162,138,000 for the six months ended 30 June 2021 and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 815,397,352 ordinary shares.

As at 30 June 2022, potentially dilutive ordinary shares were excluded from the calculation of the diluted weighted average number of ordinary shares, since the effect would have been anti-dilutive.

## 9 INVENTORIES

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	At 31 December 2021 RMB'000 (audited)
Raw materials	<b>136,047</b>	113,879
Work in progress	<b>697,589</b>	916,684
Finished goods	<b>285,664</b>	186,942
Others	<b>219</b>	206
	<b><u>1,119,519</u></b>	<u>1,217,711</u>

Provisions of RMB86,049,000 (31 December 2021: RMB1,440,000) were made against those inventories with net realisable value lower than carrying value as at 30 June 2022. Except for the above, none of the inventories as at 30 June 2022 were carried at net realisable value (2021: Nil).

## 10 TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	31 December 2021 RMB'000 (audited)
Trade and bills receivable, net of loss allowance	359,491	402,205
Deposits for metal future contracts	32,580	13,885
Metal future contracts unrealised gains	18,608	–
Other debtors, net of loss allowance	<u>1,146</u>	<u>660</u>
<b>Financial assets measured at amortised cost</b>	<b>411,825</b>	416,750
VAT recoverable	5,922	14,535
Prepayments	<u>17,488</u>	<u>29,884</u>
	<u><b>435,235</b></u>	<u>461,169</u>

All of the trade and other receivables (net of credit loss allowance) are expected to be recovered or recognised as expenses within one year.

As at 30 June 2022, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, in the amount of RMB35,515,000 (31 December 2021: RMB56,370,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continues to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

### Ageing analysis

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

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	At 31 December 2021 RMB'000 (audited)
Within 3 months	346,731	394,826
Over 3 months but less than 6 months	12,283	6,911
Over 6 months but less than 1 year	19	30
Over 1 year	<u>458</u>	<u>438</u>
	<u><b>359,491</b></u>	<u>402,205</u>

Credit terms granted to customers ranged from 7 to 90 days depending on the customer's relationship with the Group, its creditworthiness and past settlement record.

As at 30 June 2022, no Group's bills receivables (31 December 2021: RMB30,000,000) were pledged to banks for issuance of bank acceptance bills and raising loans.

## 11 TRADE AND OTHER PAYABLES

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	At 31 December 2021 RMB'000 (audited)
Trade and bills payable	<b>1,070,298</b>	927,444
Staff benefits payable	<b>44,629</b>	56,838
Payables for purchase of property, plant and equipment	<b>19,999</b>	21,023
Accrued expenses and others	<b>28,430</b>	18,549
	<hr/>	<hr/>
<b>Financial liabilities measured at amortised cost</b>	<b>1,163,356</b>	1,023,854
Contract liabilities	<b>56,032</b>	38,359
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
	<b>1,219,388</b>	1,062,213
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As of the end of the reporting period, the ageing analysis of trade and bills payable (which is included in trade and other payables), based on the invoice date or issuance date, is as follows:

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	At 31 December 2021 RMB'000 (audited)
Within 3 months	<b>965,972</b>	856,234
Over 3 months but within 6 months	<b>69,281</b>	15,979
Over 6 months but within 1 year	<b>24,880</b>	44,886
Over 1 year	<b>10,165</b>	10,345
	<hr/>	<hr/>
	<b>1,070,298</b>	927,444
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

## 12 INTEREST-BEARING BORROWINGS

At 30 June 2022, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
<b>Current</b>		
Short-term secured bank loans	317,927	372,540
Unsecured bank loans	60,000	73,500
Bank advances under discounted bills	544,814	288,577
Current portion of non-current secured bank loans	<u>68,268</u>	<u>88,310</u>
	<b>991,009</b>	822,927
<b>Non-current</b>		
Secured bank loans	<u>92,021</u>	<u>39,860</u>
	<b><u>1,083,030</u></b>	<b><u>862,787</u></b>

(i) The Group's interest-bearing borrowings were repayable as follows:

	At 30 June 2022 <i>RMB'000</i> (unaudited)	At 31 December 2021 <i>RMB'000</i> (audited)
Within 1 year	----- <u>991,009</u> -----	----- <u>822,927</u> -----
Over 1 year but less than 2 years	53,000	-
Over 2 years but less than 5 years	<u>39,021</u>	<u>39,860</u>
	<b><u>1,083,030</u></b>	<b><u>862,787</u></b>

(ii) The Group's interest-bearing borrowings in the amount of RMB289,500,000 (31 December 2021: RMB376,000,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the six months ended 30 June 2022, none of these covenants related to drawn down facilities were breached.

- (iii) The secured bank loans as at 30 June 2022 bore interest at rates ranging from 0.36% to 4.39% (31 December 2021: 0.32% to 4.79%) per annum and were pledged by the following assets:

	<b>At 30 June 2022 RMB'000 (unaudited)</b>	At 31 December 2021 RMB'000 (audited)
Carrying amounts of assets:		
Inventories	<b>330,000</b>	330,000
Property, plant and equipment	<b>175,728</b>	191,755
Right-of-use assets	<b>64,610</b>	65,336
Guarantee deposits for bank borrowings	<u>–</u>	<u>29,979</u>
	<b><u>570,338</u></b>	<b><u>617,070</u></b>

- (iv) Unsecured bank loans as at 30 June 2022 bear interest at a rate of 3.85% (31 December 2021: 4.35%) per annum.

### 13 SHARE AWARD SCHEME

On 18 April 2016 (the “**Adoption Date**”), the Company adopted a share award scheme (the “**Share Award Scheme**”), which does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, to recognise and reward the contribution of eligible employees to the growth and development of the Group through an award of the Company’s shares.

The Company has appointed a trustee for administration of the Share Award Scheme (the “**Trustee**”). The principal activity of the Trustee is administrating and holding the Company’s shares for the Share Award Scheme (the “**Trust**”) for the benefit of the Company’s eligible employees. Pursuant to the Share Award Scheme, the Company’s shares will be purchased by the Trustee in the market out of cash contributed by the Company and held in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of Company’s shares held by the Trustee under the Share Award Scheme will not exceed 20% of the total issued shares of the Company as at the Adoption Date, i.e. 162,223,190 shares.

As at 30 June 2022, the Trustee had purchased 22,522,000 shares (31 December 2021: 21,622,000 shares) of the Company at a total cost (including related transaction costs) of HKD21,882,000 (equivalent to RMB18,419,000) (31 December 2021: HKD20,887,000 (equivalent to RMB17,610,000)).

According to the Resolution of the Administration Committee of the Company on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group at nil consideration, with 40%, 30% and 30% of the shares to be vested on 15 June 2017, 15 June 2018 and 15 June 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) was determined with reference to the closing price of the Company’s ordinary shares on 26 May 2017.

According to the Resolution of the Board of Directors of the Company on 13 December 2017 (the “**Granting Date**”), 10,060,000 ordinary shares held under the Share Award Scheme were granted to all the directors in office on the Granting Date and 91 employees of the Group at nil consideration, with 5,280,000 shares (tranche 1), 2,152,000 shares (tranche 2) and 2,628,000 shares (tranche 3) to be vested on 13 December 2017, 13 December 2018 and 13 December 2019, respectively. The vesting conditions are only subject to the service conditions. The Grant Date fair value of HKD0.85 per share (equivalent to approximately RMB0.72 per share) was determined with reference to the closing price of the Company’s ordinary shares on 13 December 2017.

According to the Resolution of the Board of Directors of the Company on 13 December 2018, in order to maintain the employment service of the grantees with the Group for a longer term, the vesting of tranche 2 and tranche 3 awarded shares was postponed for one year to 13 December 2019 and 13 December 2020 (the “**Postponed Vesting Dates**”), respectively.

According to the Resolution of the Board of Directors and the Remuneration Committee of the Company on 26 November 2019, in order to incentivise and encourage the grantees to maintain their employment with the Group, the Postponed Vesting Dates were further postponed for one year to 13 December 2020 and 13 December 2021, respectively. In addition, the vesting of the remaining 300,000 shares granted on 26 May 2017 were also postponed and will be dealt with together with the above tranche 2 and tranche 3. All the ordinary shares under the above tranche 2 and tranche 3 had been vested on 13 December 2020 and 2021 respectively.

According to the Resolution of the Board of the Company on 17 December 2021, 10,900,000 ordinary shares held under the Share Award Scheme were granted to 6 directors and 5 employees of the Group at nil consideration, with 5,450,000 shares (tranche 1) and 5,450,000 shares (tranche 2) to be vested on 17 December 2021 and 2022 respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD1.15 per share (equivalent to approximately RMB0.94 per share) was determined by reference to the closing price of the Company’s ordinary shares on 17 December 2021.

Accordingly, employee service cost of RMB2,535,000 (six months ended 30 June 2021: nil) was recognised in the consolidated statement of profit or loss for the six month ended 30 June 2022.

(i) **Details of the shares held under the Share Award Scheme are set out below:**

	2022			2021		
	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB’000</i>	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB’000</i>
At 1 January	0.97	5,686,000	4,933	0.81	1,295,000	934
Shares purchased during the period/year	1.11	900,000	809	1.06	12,145,000	10,726
Shares vested during the period/year	—	—	—	—	(7,754,000)	(6,727)
At 30 June/31 December	<u>0.97</u>	<u>6,586,000</u>	<u>5,742</u>	<u>0.97</u>	<u>5,686,000</u>	<u>4,933</u>

## 14 DIVIDENDS

During the six months period ended 30 June 2022, no dividend was declared or distributed and the Directors have determined that no dividend will be paid in respect of the interim period (six months ended 30 June 2021: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### COPPER PROCESSING BUSINESS

#### Market and Industry Review

In the first half of 2022, copper price showed a rising trend first, and then followed by a sharp drop. During the first quarter of 2022, investors' expectations for the recovery of the global economy increased, despite the unfavourable news regarding copper supply from Chile, Peru and other countries from time to time. Also, the continuous demand for copper globally brought more market confidence, resulting in copper price near historical heights. However, as the Federal Reserve entered the interest rate hike cycle, investors were increasingly concerned about the global economic recession caused by inflation. Investor confidence fell further by the outbreak of the Covid-19 pandemic in China, the Russia-Ukraine war, and the trade friction between China and the US. As a result of these macro factors, many copper producing companies halted production, and the logistics and trade flow of copper products were also affected. Copper consumption was weaker than expected, market panic spread, and copper price fell accordingly.

During the first half of 2022, the London Metal Exchange (LME) copper price leaped high then finished low. On 7 March, LME copper price reached new heights at USD10,845 per ton. Subsequently, after keeping high volatility for more than a month, copper price declined sharply during the period from mid to late of April to June, with the lowest price at USD8,122.5 per ton on 24 June 2022. In the first half of 2022, the average prices of LME monthly and three-month copper futures were USD9,750 per ton and USD9,741 per ton, respectively, up by 7.20% and 7.11% year-on-year, respectively. The domestic copper price moved in a similar trend with that of the international market, with the three-month copper futures contracts in the Shanghai Futures Exchange (SHFE) fluctuated between RMB62,000 per ton and RMB75,000 per ton. The highest price of RMB76,700 per ton occurred in March 2022 and the lowest price of RMB61,420 per ton occurred in late June 2022. In the first half of 2022, the average prices of SHFE monthly and three-month copper futures were RMB71,367 per ton and RMB71,223 per ton, respectively, up by 6.83% and 6.03% year-on-year, respectively.

Since the beginning of 2022, due to the recurring domestic pandemic, low consumer confidence in the market, and declining domestic demand, the copper plates and strips industry has been generally operating at a relatively low production level, especially the outbreak of the pandemic in Shanghai in the second quarter caused serious impact on the normal operation of China's copper plates and strips industry. Since May 2022, due to the gradual ease of the pandemic control measures in Shanghai, and the economic revival of the Yangtze River Delta, end customers have accelerated the completion of backlog orders accumulated during the pandemic, resulting in a small rebound in the production of copper plates and strips. However, since June, due to the high volatility in copper price and low downstream demand, customers have placed orders cautiously, making the overall operation of copper plates and strips industry tending to be stable and downward, and the production output has significantly decreased.

## **Business Review**

In the first half of 2022, the Group's copper plates and strips business realised a total production output of 69,658 tons and total sales volume of 66,828 tons, representing a respective decrease of 9.7% and 12.9% as compared to the total production output of 77,171 tons and total sales volume of 76,696 tons for the corresponding period in 2021. During the reporting period, the Group's copper plates and strips business realised sales revenue of RMB3,218.0 million, representing an increase of 1.8% as compared to the corresponding period in 2021. In particular, revenue from the sales of copper products amounted to RMB3,038.0 million, revenue from provision of processing services amounted to RMB132.8 million, and revenue from copper trading amounted to RMB47.2 million, representing an increase of 2.0% and 2.9% and a decrease of 12.3% as compared to the corresponding period in 2021, respectively. In the first half of 2022, the Group's copper business realised a net profit of RMB121.6 million, representing a decrease of 25.3% as compared to the net profit of RMB162.8 million for the corresponding period in 2021, mainly due to: (1) the decrease in gross profit arising from the decrease in sales volume and the increase in costs; and (2) the Group's provision for inventory impairment of approximately RMB84.6 million as at 30 June 2022 due to the large drop in copper price in the second quarter of 2022.

## **Business Development**

During the reporting period, under the circumstances of the complex and changeable macro environment, the severe impact of the pandemic, and the decline in downstream demand of the copper processing industry, the Group strengthened its management mainly through the following aspects:

1. Expanding sales volume and improving service quality to ten major customers. The Group has identified ten major customers, who are the leading companies in the downstream application fields of the Group's products. The Group doubled its sales volume target of the ten major customers for 2022 as compared to 2021, and has completed a total sales volume exceeding 7,000 tons among these ten major customers under the unfavorable situation in the first half of 2022. The sales volume for the first half of 2022 is close to the full year sales of 2021, and the Group is confident that it will be able to achieve the annual sales target.
2. Accelerating the three-year technical transformation plan. The Group is poised to transform the old production lines since 2020, and at the same time to add new production capacity on the land acquired in 2019. Guided by the annual production capacity of 250,000 tons, after several optimizations and adjustments, all equipment procuring projects have been carried out as scheduled. During the reporting period, the Group has focused on the negotiation for and construction of main equipment such as main rolling mill and annealing furnace despite the disturbance caused by the domestic pandemic.

3. Continuously promoting the research and development of new products. New products are an important driver for the Group to improve its profitability. The Group plans to sell 15,000 tons of new products in 2022. With the concerted efforts of various departments, the sales volume in the first half of 2022 exceeded 6,000 tons, representing two-thirds of the total in 2021.
4. Strengthening the risk control on exchange rate, copper price and account receivables. Under the current circumstances where copper price was highly volatile and the foreign exchange rate was unstable, in order to mitigate the relevant risks, the Group actively organized finance, risk control, procurement, and sales departments to conduct real-time monitoring of the above risk points, and decisively carried out activities to mitigate the risks caused by fluctuations in copper price and foreign exchange rates.

## **Outlook**

In the field of end consumption of copper plates and strips, it is widely recognised that continuous development of the end industries led by the automobile industry and the clean energy industry will drive the recovery of the entire manufacturing industry. The following factors will bring upward development of China's copper plates and strips processing industry: 1. the demand for high-precision copper plates and strips for connectors, motive batteries and charging piles for new energy vehicles; 2. the application of photovoltaic copper strips in the automobile industry and power industry; 3. the increase in demand for traditional copper plates and strips from electronic communication, electrical engineering, and electromechanical equipment. Although, from the long term perspective, we believe that our products will have broader application fields and more demands, in the short term, particularly in the second half of 2022, we will still face various unfavorable factors such as the declining demand in downstream industries, the recurring domestic pandemic, the uncertainty over domestic economic recovery, a potential recession in the US and fluctuation in commodity prices. It is expected that the sales volume and the operating profit of the Group for the second half of 2022 will be affected by these factors. The Group's goal is to insist focus on ensuring production and sales volume, cost control, risk management, and get well prepared in all aspects for a better market condition when the challenging times are over.

## **ONLINE GAMING BUSINESS**

### **Industry Review**

According to the China's Gaming Industry Report from January to June 2022, the sales revenue of China's game market decreased and the actual sales revenue for the first half of 2022 was RMB147.8 billion, representing a year-on-year decrease of 1.8%. The number of game users in China reached 666 million people, representing a year-on-year decrease of 0.13%

### **Business Review**

In August 2016, the Group acquired Funnytime Limited (“**Funnytime**”), which mainly engages in the development, distribution and operation of online games through its wholly-owned subsidiary, Soul Dargon Limited and a series of domestic companies controlled through contractual agreements.

Funnytime achieved total revenue of RMB4.3 million and a net loss of RMB2.0 million for the six months ended 30 June 2022, compared with total revenue of RMB6.7 million and a net loss of RMB0.4 million for the same period in 2021. The decrease in revenue and the net loss incurred are because revenue from existing games shrank and new products were still in the testing phase.

## **Outlook**

Looking ahead to the second half of 2022, the Group's gaming business will continue to push hard for closing the testing phase and aim for a successful launch of gaming products amid the challenges caused by the recurring pandemic.

## **FINANCIAL REVIEW**

### **Revenue and gross profit**

The Group recorded a total sales revenue of RMB3,222.3 million in the reporting period, which increased by 1.7% as compared with that of the corresponding period in 2021.

The Group's copper business achieved a total revenue of RMB3,218.0 million for the six months ended 30 June 2022, representing an increase of 1.8% compared to RMB3,161.1 million of the corresponding period in 2021. Revenue generated from the sales of high precision copper plates and strips, provision of processing services, and trading of raw materials amounted to RMB3,038.0 million, RMB132.8 million and RMB47.2 million respectively (for the six months ended 30 June 2021: RMB2,978.3 million, RMB129.0 million and RMB53.8 million respectively). For the six months ended 30 June 2022, 94.4%, 4.1% and 1.5% of total revenue were derived from the sales of high precision copper plates and strips, provision of processing services, and trading of raw materials respectively (for the six months ended 30 June 2021: 94.2%, 4.1% and 1.7% respectively). Sales volume of high precision copper plates and strips, provision of processing services, and trading of raw material were 44,716 tons, 22,112 tons and 2,306 tons respectively, representing 64.7%, 32.0% and 3.3% of the total.

The Group's online gaming business achieved a revenue of RMB4.3 million for the six months ended 30 June 2022, representing 0.1% of the total revenue of the Group (for the six months ended 30 June 2021: RMB6.7 million).

The overall gross margin of the Group's copper business for the period decreased to 8.5% from 13.7% of the corresponding period in 2021, which was mainly due to the following reasons: 1. the decrease in sales volume as compared with last year; and 2. the sharp decrease in copper price in the second quarter of 2022.

### **Other income**

During the six months ended 30 June 2022, the Group's other income amounted to RMB52.7 million in total, representing an increase of RMB44.8 million compared to that of RMB7.9 million of the corresponding period in 2021. Such increase was mainly because the Group recorded a net gain of RMB40.0 million on derivative financial instruments in 2022.

## **Other expenses**

For the six months ended 30 June 2022, the Group recorded RMB0.1 million in other expenses, while other expenses for the corresponding period in 2021 was RMB59.6 million. Such decrease was mainly because the Group recorded a net loss of RMB58.0 million on derivative financial instruments in 2021.

## **Distribution expenses**

For the six months ended 30 June 2022, the ratio of distribution expenses to revenue increased to 1.0% as compared to 0.9% of the corresponding period in 2021. This was mainly because the transport contractors charged higher freight due to Covid-19 lockdowns.

## **Administrative expenses**

For the six months ended 30 June 2022, the Group's administrative expenses increased by 14.3% to RMB158.6 million from RMB138.8 million in the corresponding period in 2021, which was attributable to an increase in research and development expenses.

## **Net finance costs**

The Group's net finance costs for the six months ended 30 June 2022 amounted to RMB4.2 million, representing a decrease of RMB7.7 million compared to that of RMB11.9 million of the corresponding period in 2021. This was mainly because the Group recorded more interest income from bank deposits in 2022 (RMB12.9 million) as compared with 2021 (RMB8.0 million).

## **Income tax**

For the six months ended 30 June 2022, the Group's income tax expenses was RMB15.3 million (for the six months ended 30 June 2021: RMB44.9 million). The Group's consolidated effective tax rate for the six months ended 30 June 2022 was 11% (for the six months ended 30 June 2021: 22%). The decrease in the effective tax rate was mainly because the Group's two major subsidiaries enjoyed 100% additional deduction for qualified research and development expenses.

## **Profit attributable to the shareholders of the Company**

The profit attributable to shareholders of the Company for the six months ended 30 June 2022 amounted to RMB119.4 million, representing a decrease of RMB42.7 million compared to that of RMB162.1 million of the corresponding period in 2021.

## **Liquidity financial resources and capital structure**

As at 30 June 2022, the Group recorded a net current assets of RMB834.7 million, which was primarily because the Group had more restricted bank deposits and cash and cash equivalents.

As a percentage of total interest-bearing borrowings, short-term interest-bearing borrowings represented 91.5% as at 30 June 2022. As at the date of this announcement, the Group had not experienced any difficulty in raising funds by securing and rolling over the short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

The Group is able to generate net cash inflows from operating activities. Also, the Group has good credit standing and relationships with principal lending banks and possesses available undrawn banking facilities of RMB1,739.7 million that will not expire within 12 months from 30 June 2022 (including long term loan facilities amounting to RMB435.1 million effective until 2026) and cash at banks of RMB1,503.3 million (comprised of restricted bank deposits of RMB737.9 million, bank deposits with original maturity over three months of RMB100.3 million and cash and cash equivalents of RMB665.1 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board of the Company believes that the Group can roll over the existing short-term bank borrowings upon maturity in the coming year. The Board of the Company is confident that the Group has adequate financial resources to sustain its working capital requirements and meet its foreseeable debt repayment requirements.

As at 30 June 2022, the Group had outstanding bank loans and other borrowings of approximately RMB991.0 million, which shall be repaid within 1 year. As at 30 June 2022, 44.2% of the Group's debts was on a secured basis.

The gearing ratio as at 30 June 2022 was 20.0% (31 December 2021: 28.7%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and lease liabilities as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

### **Charge on assets**

As at 30 June 2022, the Group pledged assets with an aggregate carrying value of RMB570.3 million (31 December 2021: RMB617.1 million) to secure bank loans and facilities of the Group.

### **Capital expenditure**

For the six months ended 30 June 2022, the Group has invested approximately RMB51.9 million in purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank borrowings.

## **Capital commitments**

As at 30 June 2022, future capital expenditures, for which the Group had contracted but not provided for, amounted to RMB518.8 million, which is mainly for plant construction and capacity expansion of the Group's copper processing business.

## **Contingent liabilities**

As at 30 June 2022, the Group did not have any significant contingent liabilities.

## **MARKET RISK**

The Group is exposed to various types of market risks, including price risk, interest rate risk and foreign exchange risk.

### **Price risk**

The Group is exposed to raw material price fluctuations. Cathode copper, alloy trimmings, zinc, tin, nickel and other metals are the principal raw materials used in the production of the Group's products. The Group had made such purchases at market prices. In addition, sales of all products of the Group were on market prices, which might fluctuate and were beyond the Group's control. Therefore, fluctuations in the prices of raw materials may have adverse effect on the results of the Group's operations.

The Group uses its copper futures contracts in SHFE and LME to hedge against fluctuations in copper price. The Group recorded a gain on futures contracts of approximately RMB40.0 million for the six months ended 30 June 2022, while recording a net loss of approximately RMB58.0 million in the corresponding period in 2021.

### **Interest rate risk**

Except for short-term deposits, the Group has no significant interest-bearing assets. Therefore, the Group's income and operating cash flows are, to a large extent, independent of changes in market interest rates. The Group's exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on bank borrowings. The Group's exposure to debt is used for general corporate purposes, including capital expenditures and working capital needs. The Group's bank borrowings bear interest rates that are subject to adjustment by lenders in accordance with changes of the relevant regulations of the People's Bank of China ("PBOC"). The Group's financing costs will increase when the PBOC raises interest rates. Fluctuations in interest rates will affect the cost of undertaking new debts. The Group had not entered into any interest rate swaps to hedge against exposure to interest rate risk.

## **Foreign exchange risk**

The Group's export sales and certain parts of the purchase of raw materials were denominated in foreign currencies, primarily U.S. dollars. Therefore, fluctuations in exchange rates may have an impact on the Group's operating results. For the reporting period, the Group recorded a net foreign exchange gain of RMB1.6 million, which was RMB1.8 million in the corresponding period in 2021.

## **EMPLOYEES**

As at 30 June 2022, the total number of the Group's employees was 1,464 (31 December 2021: 1,449). Remuneration policies are reviewed periodically to ensure that the Group is offering competitive employment packages to employees. The employees' benefits include salaries, pensions, medical insurance scheme and other applicable social insurance. Promotion and salary increments are assessed in accordance with performance. The Group's business growth depends on its employees' skills and contributions. The Group believes in the important position of human resources in a highly competitive industry and has devoted resources for training its employees. Also, share options may be granted and shares may be awarded to eligible employees of the Group respectively in accordance with the terms of the share option scheme adopted by the Company and share award scheme adopted by the Board of the Company. The Group has established an annual training program for employees so that new employees can master the basic skills required to perform their duties, and existing employees can enhance or upgrade their skills.

## **SHARE OPTION SCHEME AND SHARE AWARD SCHEME**

The Company adopted a share option scheme on 1 December 2007 (the "**2007 Share Option Scheme**") which was terminated by shareholders at the extraordinary general meeting of the Company held on 27 May 2016. No further options should thereafter be granted under the 2007 Share Option Scheme. Details of 2007 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2015.

A new share option scheme had been adopted by shareholders at the extraordinary general meeting of the Company held on 27 May 2016 (the "**2016 Share Option Scheme**").

The principal terms of the 2016 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2021.

During the period under review, no options were granted, exercised, lapsed, cancelled or outstanding under the 2016 Share Option Scheme.

The Board of the Company also adopted the Share Award Scheme on 18 April 2016. Details of the Share Award Scheme are set out in note 13 of the notes to the unaudited interim financial results in this announcement.

## **AUDIT COMMITTEE**

The audit committee of the Board of the Company has reviewed with management the accounting policies and practices adopted by the Group and discussed the financial reporting matters including the review of the interim results and the interim report for the period under review prepared in accordance with relevant accounting standards.

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

The Company has complied with the code provisions set out in the part 2 of the Corporate Governance Code in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the period under review.

## **COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS**

The Board of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”). Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

## **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

The trustee of the share award scheme adopted by the Company on 18 April 2016 (the “**Share Award Scheme**”), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 900,000 shares of the Company at a total consideration of HKD995,000 (equivalent to RMB809,000) for the six months ended 30 June 2022.

Except for the purchase of shares under the Share Award Scheme mentioned above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company in the six months ended 30 June 2022.

## **INTERIM DIVIDEND**

The Board of the Company did not declare the payment of an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: Nil).

## **PUBLICATION OF 2022 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT**

This results announcement is published on the Company's website ([www.xingyealloy.com](http://www.xingyealloy.com)) and the website of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)). The Company's 2022 interim report will be made available on the websites of the Company and Hong Kong Exchanges and Clearing Limited and will be despatched to the Company's shareholders in due course.

By Order of the Board  
**Xingye Alloy Materials Group Limited**  
**HU Minglie**  
*Chief Executive Officer and Executive Director*

Hong Kong, 31 August 2022

*As at the date of this announcement, the executive Directors of the Company are Mr. HU Changyuan, Mr. HU Minglie and Mr. ZHU Wenjun; and the independent non-executive Directors of the Company are Mr. CHAI Chaoming, Dr. LOU Dong and Ms. LU Hong.*