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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 2023

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 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Revenue	4	2,809,295	3,222,331
Cost of sales		<u>(2,523,454)</u>	<u>(2,946,403)</u>
Gross profit		285,841	275,928
Other income		14,027	11,246
Distribution expenses		(21,042)	(30,833)
Administrative expenses		(151,541)	(158,599)
Other gains and losses, net	5	<u>(6,335)</u>	<u>41,335</u>
Profit from operations		120,950	139,077
Finance income		23,087	14,461
Finance costs		<u>(18,979)</u>	<u>(18,655)</u>
Net finance income/(costs)	6(a)	<u>4,108</u>	<u>(4,194)</u>

		Six months ended 30 June	
	<i>Note</i>	2023	2022
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit before taxation		125,058	134,883
Income tax	7	<u>(17,172)</u>	<u>(15,317)</u>
Profit for the period		<u>107,886</u>	<u>119,566</u>
Attributable to:			
Equity shareholders of the Company		107,726	119,447
Non-controlling interests		<u>160</u>	<u>119</u>
Profit for the period		<u>107,886</u>	<u>119,566</u>
Earnings per share			
– Basic (<i>RMB cents</i>)	8(a)	12.13	13.36
– Diluted (<i>RMB cents</i>)	8(b)	<u>12.13</u>	<u>13.36</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit for the period	107,886	119,566
Other comprehensive income for the period (after tax and reclassification adjustments):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	<u>1,249</u>	<u>2,170</u>
Total comprehensive income for the period	<u>109,135</u>	<u>121,736</u>
Attributable to:		
Equity shareholders of the Company	108,975	121,617
Non-controlling interests	<u>160</u>	<u>119</u>
Total comprehensive income for the period	<u>109,135</u>	<u>121,736</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	<i>Note</i>	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Non-current assets			
Property, plant and equipment		981,608	922,420
Right-of-use assets		64,895	67,007
Deposits for acquisition of property, plant and equipment		61,432	24,900
Deferred tax assets		20,015	23,859
Other non-current assets		7,490	7,490
		1,135,440	1,045,676
Current assets			
Inventories	9	1,257,705	1,229,301
Trade and other receivables	10	581,158	546,898
Derivative financial instruments		2,946	935
Restricted bank deposits		967,957	720,133
Bank deposits with original maturity over three months		178,309	311,683
Cash and cash equivalents		484,613	316,859
		3,472,688	3,125,809

	<i>Note</i>	At 30 June 2023 <i>RMB'000</i> (unaudited)	At 31 December 2022 <i>RMB'000</i> (audited)
Current liabilities			
Trade and other payables	11	1,386,757	1,456,706
Interest-bearing borrowings	12	1,195,588	745,050
Derivative financial instruments		4,517	10,599
Lease liabilities		1,200	1,999
Income tax payable		25,226	8,079
		<u>2,613,288</u>	<u>2,222,433</u>
Net current assets		<u>859,400</u>	<u>903,376</u>
Total assets less current liabilities		<u>1,994,840</u>	<u>1,949,052</u>
Non-current liabilities			
Interest-bearing borrowings	12	73,301	117,739
Lease liabilities		615	995
Deferred income		31,405	38,788
Deferred tax liabilities		6,000	6,000
		<u>111,321</u>	<u>163,522</u>
Net assets		<u>1,883,519</u>	<u>1,785,530</u>
Capital and reserves			
Share capital		80,774	80,774
Reserves		1,799,840	1,702,011
Total equity attributable to equity shareholders of the Company		<u>1,880,614</u>	<u>1,782,785</u>
Non-controlling interests		<u>2,905</u>	<u>2,745</u>
Total equity		<u>1,883,519</u>	<u>1,785,530</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 2023 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 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 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.

The 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 2022 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:

- IFRS 17, Insurance contracts
- Amendments to IAS1 and IFRS practice statement 2: Disclosure of accounting policies
- Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
- Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 12, Income taxes: International tax reform – Pillar Two model rules

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 2023.

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:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue from contracts with customers within the scope of IFRS15		
Disaggregated by major products or service lines:		
Copper products related:		
– Sales of high precision copper plates and strips	2,670,276	3,037,965
– Processing service fees	109,177	132,818
– Trading of raw materials	22,229	47,242
	<u>2,801,682</u>	<u>3,218,025</u>
Online games related:		
– Publishing and operating online games	2,480	4,146
– Others	5,133	160
	<u>7,613</u>	<u>4,306</u>
	<u>2,809,295</u>	<u>3,222,331</u>
Disaggregated by timing of revenue recognition:		
– Point in time	2,801,682	3,218,025
– Over time	7,613	4,306
	<u>2,809,295</u>	<u>3,222,331</u>

Disaggregated by geographical location of customers:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
– Mainland China	2,516,118	2,746,352
– Hong Kong, China	46,428	50,565
– Bangladesh	32,821	48,115
– South Korea	32,582	62,958
– Taiwan, China	27,344	64,656
– India	17,634	33,470
– Thailand	15,808	24,073
– Vietnam	15,702	20,219
– The United States of America	9,905	16,177
– Other locations	94,953	155,746
	<u>2,809,295</u>	<u>3,222,331</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 2023 and 2022.

(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 GAINS AND LOSSES, NET

	Six months ended 30 June	
	2023	2022*
	RMB'000	RMB'000
	(unaudited)	(unaudited)
(Credit losses allowance)/Reversal of credit losses allowance on trade and other receivables	(1,482)	1,419
Losses on disposal of property, plant and equipment	(1,247)	(17)
Net (losses)/gains on metal future contracts	(3,071)	40,029
Others	(535)	(96)
	<u>(6,335)</u>	<u>41,335</u>

* Certain comparative figures have been reclassified to conform to current year's presentation. The classification would not have material impact on the Interim Financial Information.

6 PROFIT BEFORE TAXATION

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

(a) Net finance income/(costs)

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Interest income from bank deposits	18,042	12,854
Net foreign exchange gains	<u>5,045</u>	<u>1,607</u>
Finance income	<u>23,087</u>	<u>14,461</u>
Interest expenses on interest-bearing borrowings	(18,880)	(19,406)
Interest on lease liabilities	(49)	(98)
Less: interest expenses capitalised*	<u>860</u>	<u>849</u>
Net interest expenses recognised in profit or loss	<u>(18,069)</u>	<u>(18,655)</u>
Losses from foreign exchange forward contracts and option contracts	<u>(910)</u>	<u>—</u>
Finance costs	<u>(18,979)</u>	<u>(18,655)</u>
Net finance income/(costs)	<u><u>4,108</u></u>	<u><u>(4,194)</u></u>

* The borrowing costs were capitalised at rates ranging from 3.2% to 4.3% per annum during the six months ended 30 June 2023 (six months ended 30 June 2022: 4.3%).

(b) Other items

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories *	2,520,220	2,945,004
Research and development expenses (included in administrative expenses)	84,870	105,836
Depreciation		
– Property, plant and equipment	49,878	50,907
– Right-of-use assets	1,323	1,740
Government grants	13,799	9,559

* Cost of inventories includes depreciation of RMB27,027,000 (six months ended 30 June 2022: RMB25,292,000), which is also included in the total amount of depreciation expenses disclosed separately below.

7 INCOME TAX

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
Provision for the period	17,651	39,556
Over-provision in respect of prior year	(4,323)	(9,917)
	<u>13,328</u>	<u>29,639</u>
Deferred tax		
Origination and reversal of temporary differences	3,844	(14,322)
	<u>17,172</u>	<u>15,317</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 2023 was 14% (six months ended 30 June 2022: 11%). The increase in the effective tax rate was mainly due to the increase in taxable profits of a PRC subsidiary of the company, which has been profitable since 2022 and used its accumulated losses in 2022.

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 RMB107,726,000 (six months ended 30 June 2022: RMB119,447,000) and the weighted average number of 887,732,926 ordinary shares (six months ended 30 June 2022: 893,872,173 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

As at 30 June 2023, diluted earnings per share is the same as basic earnings per share as there are no dilutive potential shares during the period.

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

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Raw materials	211,294	143,959
Work in progress	779,576	836,733
Finished goods	266,611	248,387
Others	224	222
	<u>1,257,705</u>	<u>1,229,301</u>

Provisions of RMB7,536,000 (31 December 2022: RMB15,289,000) were made against those inventories with net realisable value lower than carrying value as at 30 June 2023. Except for the above, none of the inventories as at 30 June 2023 were carried at net realisable value (2022: Nil).

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2023 RMB'000 (unaudited)	31 December 2022 RMB'000 (audited)
Trade and bills receivable, net of credit loss allowance	434,303	407,977
Deposits for metal future contracts	67,725	88,577
Receivables under metal future contracts	2,959	–
Other debtors, net of credit loss allowance	<u>1,957</u>	<u>649</u>
Financial assets measured at amortised cost	506,944	497,203
VAT recoverable	34,674	25,042
Prepayments	<u>39,540</u>	<u>24,653</u>
	<u>581,158</u>	<u>546,898</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 2023, 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 RMB44,615,000 (31 December 2022: RMB22,780,000). 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:

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Within 3 months	406,244	396,685
Over 3 months but less than 6 months	24,300	10,727
Over 6 months but less than 1 year	3,299	110
Over 1 year	<u>460</u>	<u>455</u>
	<u>434,303</u>	<u>407,977</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 2023, nil of Group's bills receivables (31 December 2022: RMB2,500,000) were pledged to banks for issuance of bank acceptance bills and raising loans.

11 TRADE AND OTHER PAYABLES

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Trade and bills payable	1,234,833	1,279,053
Staff benefits payable	53,812	73,961
Payables for purchase of property, plant and equipment	34,155	39,036
Accrued expenses and others	<u>24,359</u>	<u>34,657</u>
Financial liabilities measured at amortised cost	1,347,159	1,426,707
Contract liabilities	<u>39,598</u>	<u>29,999</u>
	<u>1,386,757</u>	<u>1,456,706</u>

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:

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Within 3 months	1,181,995	1,141,499
Over 3 months but within 6 months	41,371	15,235
Over 6 months but within 1 year	2,824	106,777
Over 1 year	<u>8,643</u>	<u>15,542</u>
	<u>1,234,833</u>	<u>1,279,053</u>

12 INTEREST-BEARING BORROWINGS

At 30 June 2023, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	At 30 June 2023	At 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Current		
Short-term secured bank loans	239,968	227,200
Unsecured bank loans	70,000	50,000
Bank advances under discounted bills	831,570	467,850
Current portion of non-current secured bank loans	<u>54,051</u>	<u>–</u>
	1,195,588	745,050
Non-current		
Secured bank loans	<u>73,301</u>	<u>117,739</u>
	<u>1,268,889</u>	<u>862,789</u>

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

	At 30 June 2023	At 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)
Within 1 year	<u>1,195,588</u>	<u>745,050</u>
Over 1 year but less than 2 years	27,526	80,500
Over 2 years but less than 5 years	<u>45,775</u>	<u>37,239</u>
	<u>1,268,889</u>	<u>862,789</u>

(ii) The Group's interest-bearing borrowings in the amount of RMB241,000,000 (31 December 2022: RMB257,000,000) 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 2023, none of these covenants related to drawn down facilities were breached.

- (iii) The secured bank loans as at 30 June 2023 bore interest at rates ranging from 0.30% to 5.79% (31 December 2022: 0.30% to 5.65%) per annum and were pledged by the following assets:

	At 30 June 2023 RMB'000 (unaudited)	At 31 December 2022 RMB'000 (audited)
Carrying amounts of assets:		
Inventories	330,000	330,000
Property, plant and equipment	156,974	166,601
Right-of-use assets	6,376	6,482
	<u>493,350</u>	<u>503,083</u>

- (iv) Unsecured bank loans as at 30 June 2023 bear interest at a rate of 3.05% (31 December 2022: 3.85%) 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 2023, the Trustee had purchased 42,651,000 shares (31 December 2022: 31,323,000 shares) of the Company at a total cost (including related transaction costs) of HKD44,608,000 (equivalent to RMB38,684,000) (31 December 2022: HKD32,061,000 (equivalent to RMB27,538,000)).

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.

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

	2023			2022		
	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	1.02	9,937,000	9,597	0.97	5,686,000	4,933
Shares purchased during the period/year	1.11	11,328,000	11,146	1.15	9,701,000	9,928
Shares vested during the period/year	—	—	—	—	(5,450,000)	(5,264)
At 30 June/31 December	<u>1.05</u>	<u>21,265,000</u>	<u>20,743</u>	<u>1.02</u>	<u>9,937,000</u>	<u>9,597</u>

14 DIVIDENDS

During the six months period ended 30 June 2023, 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 2022: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

COPPER PROCESSING BUSINESS

Market and Industry Review

In the first half of 2023, the global economy encountered various challenges such as high inflation, geopolitical conflicts and trade conflicts led by China and the United States. Major western economies were still in the cycle of interest rate hikes with sluggish economic recovery, and China's economy also showed slower growth due to negative factors such as depressed consumption and weak export. Except for continuous growth in the new energy sector, the demand for industrial metals by the traditional industries remained weak. For the copper market, the high interest rate of the U.S. dollars has significantly increased the capital costs of the investors holding copper futures positions or inventories, while imposing greater pressure on copper price denominated in the U.S. dollars.

Since 2023, the supply side of domestic raw materials (such as copper concentrate, copper scrap and anode copper) has been relatively sufficient, and overseas copper concentrate production has also been robust. The copper price remained generally high before May 2023 with more copper scrap outflows, and many copper scrap rod enterprises turned to produce anode plates to sell to smelters, which boosted refined copper production continuously to reach new highs. The production of refined copper was affected by the maintenance of smelters commencing after late March 2023. As the decline in copper price since mid of April 2023, so was the decreased supply of scrap copper, and started to affect the production volume of refined copper.

On the consumption side, the demand was lower than expected since the beginning of 2023. The demand was relatively strong in a few industries (such as air conditioning, photovoltaic, etc.), but tepid in most industries. Moreover, based on the inventory level and order movement of downstream and end users, the market was very sensitive to copper price, reflected by greater demand, more orders and higher willingness to increase the inventory when copper price was low, and strong wait-and-see attitude when copper price was high. The demand is expected to remain lower than expected in the short term. To sum up, despite significant decline in domestic net import of copper products since the beginning of 2023, the production of copper products increased year-on-year, with good apparent copper consumption but unsatisfactory actual consumption level. Globally, China continued to contribute most production increase, with decreased production overseas. As for demand, the consumption has declined year-on-year due to deteriorated manufacturing overseas.

In the first half of 2023, copper price showed a volatile trend and fluctuated sharply. The London Metal Exchange (“LME”) copper price leaped high at the beginning of 2023, and surged to USD9,550 per ton on 18 January 2023, then fell back to USD8,442 in mid-March 2023. In late March 2023, copper price rebounded to the middle level of the volatility range in the first quarter of about USD9,000, and began to fall as low as USD7,867 per ton in mid-April 2023. In late May 2023, it rebounded to USD8,711.5 per ton. The average price of LME three-month copper futures in June 2023 was USD8,391 per ton, down by 7.1% year-on-year, up by 1.6% month-on-month, and the average price from January to June 2023 was USD8,721 per ton, down by 10.5% year-on-year. The domestic copper price moved in a similar trend with that of the overseas market, but was stronger than that of the overseas market due to the depreciation of the RMB, fluctuating between RMB62,680-RMB70,500 per ton in the first half of 2023. The average price of copper quoted from Shanghai Future Exchange (“SFE”) in June 2023 was RMB68,048 per ton, down by 2.1% year-on-year, up by 3.7% month-on-month, and the average price from January to June was RMB68,033 per ton, down by 5.3% year-on-year.

In the first half of 2023, with stable transition of pandemic prevention and control, the domestic economy and society fully resumed normal operation. However, due to downturn in the real estate market and other factors, household consumption such as home appliances, furniture and home decoration was unsatisfactory, and retail sales of building materials recorded negative growth year-on-year. The traditional semiconductor and consumer electronics industry was also sluggish, dragging down the copper plates and strips sub-industry to be in the low run generally. According to the analysis from Antaike, a copper industry research center, the copper plates and strips industry had the lowest capacity utilization rate among the copper processing sub-industries in the first half of 2023. It was lower than those other sub-industries of copper pipe, copper bar, copper rod and copper foil. In the copper plates processing industry, certain copper plates and strips manufacturers had been commissioning new production capacity in 2023, but the newly released production capacity cannot be fully utilized despite strong demand in new energy, photovoltaic and energy storage industries, reflecting pressure of competition in the industry.

Business Review

In the first half of 2023, the Group’s copper plates and strips business realised a total production output of 62,879 tons and total sales volume of 61,234 tons, representing a respective decrease of 9.7% and 8.4% as compared to the total production output of 69,658 tons and total sales volume of 66,828 tons for the corresponding period in 2022. During the six months ended 30 June 2023 (“**reporting period**”), the Group’s copper plates and strips business realised sales revenue of RMB2,801.7 million, representing a decrease of 12.9% as compared to the corresponding period in 2022. In particular, revenue from the sales of copper products amounted to RMB2,670.3 million, revenue from provision of processing services amounted to RMB109.2 million, and revenue from copper trading amounted to RMB22.2 million, representing a decrease of 12.1%, 17.8% and 53.0% as compared with the corresponding period in 2022, respectively. In the first half of 2023, the Group’s copper business realised a net profit of RMB 108.6 million, representing a decrease of 10.7% as compared with the net profit of RMB121.6 million for the corresponding period in 2022, mainly due to the decrease in sales volume and copper price as compared with the corresponding period in 2022.

Business Development

During the reporting period, based on organizational reform and guided by the industry – market – user demand, the Group focused on product – quality – efficiency. Under the increasingly complicated and fierce market competition environment, the Group proactively sought changes by carrying out relevant work in a targeted manner, and achieved the expected results, as follows:

1. Optimization of organizational structure. In order to cultivate a highly competitive sales and marketing team, the Group engaged an internationally first-class consulting company to systematically design and optimize its sales and marketing system taking into account its own advantages, developed a new marketing structure integrating sales, expansion, service, technical support, market research and key customer maintenance functions, and increased and strengthened the personnel of each function module.
2. Orderly moving forward of technological transformation. With synchronous and orderly progress of the renovation of both the old production lines and the construction of the new production lines, the Group speeded up the schedule in the first half of 2023 and allocated all resources to ensure that the project was advanced as scheduled. As of the reporting period, a total of 4 equipments have been put into trial operation, and the remaining devices are being produced or installed as planned.
3. Talent echelon construction. In order to meet the requirements of human resource management and talent echelon construction in the new era, during the reporting period, the Group prepared plans for personnel demand, adjustment, training and enhancement for the next three years, established a talent reserve model applicable to position talent, improved the talent documentation, sorted out the talent map and formulated the list of key positions, providing organizational and institutional guarantee for the Group's talent team construction.
4. Effective quality improvement measures. The Group formulated 28 quality target plans at the beginning of 2023, and 17 of them have been completed as of the reporting period, exceeding expectations. In order to break the bottleneck of product yield, the Group engaged an internationally first-class consulting company to set up a project team to carry out more than half a year of analysis, improvement, follow-up and verification on product yield improvement, and achieved the phased results.
5. New product research and development breakthrough. Based on national industrial policy and customer demand orientation, together with the goal of domestic-made substitutes, the Group has always been committed to new product research and development as well as iteration and upgrading of old products, and has made great breakthroughs. During the reporting period, the Group successfully completed the development of 5 new products, of which 1 product has passed the customer certification and received valid order. In terms of product enhancement, it has completed the performance improvement or trial production of new specifications of 7 products in aggregate, which were basically recognized by customers.

Outlook

In the second half of 2023, the national macroeconomic development will still be affected by the China-US trade conflicts, geopolitical instability and other factors, but under the support of domestic policy to stimulate consumption and the expectation on the termination of the current interest rate hike cycle of the Federal Reserve, the relevant downstream sectors of the copper plates and strips industry such as electronic consumption, automobiles and home appliances are expected to experience continuous rally. The management of the Group believes that although the competitive situation in the industry remains tough, the Group is confident and capable of seizing the opportunity to achieve its operating targets and achieve stable operating results by capitalizing on its advantages of continuous innovation transformation and improvement of management capabilities.

ONLINE GAMING BUSINESS

Industry Review

According to the China's Gaming Industry Report from January to June 2023, the sales revenue of China's game market for the first half of 2023 was RMB144.3 billion, representing a year-on-year decrease of 2.39%. As at 30 June 2023, the number of game users in China reached 668 million, representing a year-on-year increase of 0.35%.

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 RMB7.6 million and a net loss of RMB0.7 million for the six months ended 30 June 2023, compared with total revenue of RMB4.3 million and a net loss of RMB2.0 million for the same period in 2022. The increase in revenue for the six months ended 30 June 2023 was mainly due to the fact that its independently-developed game “Yi Qi Lai Xiu Xian (《一起來修仙》)” began to generate revenue, which also led to the decrease in net loss.

Outlook

Looking ahead to the second half of 2023, the Group's gaming business is facing severe challenges such as declining gaming market and more fierce competition from mega gaming companies. To cope with such situations, the Group's gaming business will focus on cost reduction and continue to provide products and services with its own strengths.

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded a total sales revenue of RMB2,809.3 million in the reporting period, which decreased by 12.8% as compared with that of the corresponding period in 2022.

The Group's copper business achieved a total revenue of RMB2,801.7 million for the six months ended 30 June 2023, representing a decrease of 12.9% as compared with RMB3,218.0 million of the corresponding period in 2022. Revenue generated from the sales of high precision copper plates and strips, provision of processing services, and trading of raw materials amounted to RMB2,670.3 million, RMB109.2 million and RMB22.2 million respectively (for the six months ended 30 June 2022: RMB3,038.0 million, RMB132.8 million and RMB47.2 million respectively). For the six months ended 30 June 2023, 95.3%, 3.9% and 0.8% 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 2022: 94.4%, 4.1% and 1.5% respectively). For the six months ended 30 June 2023, sales volume of high precision copper plates and strips, provision of processing services, and trading of raw material were 41,763 tons, 19,471 tons and 1,427 tons respectively, representing 66.6%, 31.1% and 2.3% of the total sales volume respectively.

The Group's online gaming business achieved a revenue of RMB7.6 million for the six months ended 30 June 2023, representing 0.3% of the total revenue of the Group (for the six months ended 30 June 2022: RMB4.3 million).

The overall gross margin of the Group's copper business for the reporting period increased to 10.0% from 8.5% of the corresponding period in 2022, which was mainly due to the following reasons: 1. the decrease in average copper price as compared with the corresponding period in 2022; and 2. the decrease in cost of material input per ton as compared with the corresponding period in 2022.

Other income

During the six months ended 30 June 2023, the Group's other income amounted to RMB14.0 million, representing an increase of RMB2.8 million as compared with that of RMB11.2 million of the corresponding period in 2022. This was mainly due to the increase in government grants.

Other gains and losses, net

For the six months ended 30 June 2023, the Group recorded RMB6.3 million in other losses, while the Group recorded other gains of RMB41.3 million for the corresponding period in 2022. Such change was mainly due to the fact that the Group recorded a net gain of RMB40.0 million on metal future contracts in 2022.

Distribution expenses

For the six months ended 30 June 2023, the ratio of distribution expenses to revenue decreased to 0.7% as compared with 1.0% of the corresponding period in 2022. This was mainly due to the decrease in service fee.

Administrative expenses

For the six months ended 30 June 2023, the Group's administrative expenses decreased by 4.7% to RMB151.5 million from RMB158.6 million in the corresponding period in 2022, which was attributable to a decrease in research and development expenses.

Net finance income/(costs)

For the six months ended 30 June 2023, the Group recorded net finance income of RMB4.1 million. While for the corresponding period in 2022, the Group recorded net finance costs of RMB4.2 million. This was mainly due to an increase in interest income on bank deposits and net foreign exchange gains.

Income tax

For the six months ended 30 June 2023, the Group's income tax expenses was RMB17.2 million (for the six months ended 30 June 2022: RMB15.3 million). The Group's consolidated effective tax rate for the six months ended 30 June 2023 was 14% (for the six months ended 30 June 2022: 11%). The increase in the effective tax rate was mainly due to the increase in taxable profits of a PRC subsidiary of the Company, which has been profitable since 2022 and used its accumulated losses in 2022.

Profit attributable to the shareholders of the Company

The profit attributable to shareholders of the Company for the six months ended 30 June 2023 amounted to RMB107.7 million, representing a decrease of RMB11.7 million as compared with that of RMB119.4 million of the corresponding period in 2022.

Liquidity financial resources and capital structure

As at 30 June 2023, the Group recorded a net current assets of RMB859.4 million, which was primarily because the Group had more restricted bank deposits and cash and cash equivalents as compared with the corresponding period in 2022.

As a percentage of total interest-bearing borrowings, short-term interest-bearing borrowings represented 94.2% as at 30 June 2023. 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 RMB2,001.9 million that will not expire within 12 months from 30 June 2023 (including long term loan facilities amounting to RMB718.5 million effective until 2033) and cash at banks of RMB1,630.9 million (comprised of restricted bank deposits of RMB968.0 million, bank deposits with original maturity over three months of RMB178.3 million and cash and cash equivalents of RMB484.6 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 2023, the Group had outstanding bank loans and other borrowings of approximately RMB1,195.6 million, which shall be repaid within 1 year. As at 30 June 2023, 28.9% of the Group's debts was on a secured basis.

The gearing ratio as at 30 June 2023 was 31.1% (31 December 2022: 33.0%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings, lease liabilities and bills payable as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

Charge on assets

As at 30 June 2023, the Group pledged assets with an aggregate carrying value of RMB493.4 million (31 December 2022: RMB503.1 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2023, the Group has invested approximately RMB105.9 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 2023, future capital expenditures, for which the Group had contracted but not provided for, amounted to RMB466.2 million, which are mainly for plant construction and capacity expansion of the Group's copper processing business.

Contingent liabilities

As at 30 June 2023, 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 net loss on metal future contracts of approximately RMB3.1 million for the six months ended 30 June 2023, while recording a net gain of approximately RMB40.0 million in the corresponding period in 2022.

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, the Group has exposure for foreign exchange risks and the Group uses foreign exchange forward contracts and options to hedge its foreign exchange risks. For the reporting period, the Group recorded a net foreign exchange gain of RMB5.0 million, which was RMB1.6 million in the corresponding period in 2022. Meanwhile, the Group recorded a net loss of RMB0.9 million from foreign exchange forward contracts and option contracts in 2023.

EMPLOYEES

As at 30 June 2023, the total number of the Group's employees was 1,552 (31 December 2022: 1,457). 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 recognises the importance 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 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 respectively. 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**").

During the reporting period, 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.

The principal terms of the 2016 Share Option Scheme and the Share Award Scheme were set out in the published annual report of the Company for the year ended 31 December 2022.

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 reporting period.

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 2023.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The trustee of the Share Award Scheme defined in note 13, pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 11,328,000 shares of the Company at a total consideration of HKD12,547,000 (equivalent to RMB11,146,000) for the six months ended 30 June 2023.

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 for the six months ended 30 June 2023.

INTERIM DIVIDEND

The Board of the Company did not declare the payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

The Group does not have any material subsequent event after the reporting period and up to the date of this announcement.

PUBLICATION OF 2023 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement is published on the Company's website (www.xingyealloy.com) and the website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The Company's 2023 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 2023

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.