# XINGFA ALUMINIUM HOLDINGS LIMITED
# 興發鋁業控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 98)**

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

## FINANCIAL HIGHLIGHTS

1. Revenue increased by approximately 12.0% to RMB5,576.7 million (2015: RMB4,977.8 million).

2. Gross profit decreased by approximately 1% to RMB825.0 million (2015: RMB829.8 million).

3. Profit for the year increased by approximately 12% to RMB298.5 million (2015: RMB265.8 million).

4. Earnings per share were RMB0.71 (2015: RMB0.64).

5. The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: HKD9 cents per ordinary share).

## RESULTS

The board of directors (the "**Directors**" or the "**Board**") of Xingfa Aluminium Holdings Limited (the "**Company**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**our Group**", "**we**" or "**us**") prepared under International Financial Reporting Standards ("**IFRS**") for the year ended 31 December 2016, together with the comparative figures for the corresponding financial year ended 31 December 2015 and the relevant explanatory notes as set out below.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2016*
*(Expressed in Renminbi)*

| | *Note* | **2016** *RMB'000* | 2015 *RMB'000* |
|---|---|---|---|
| **Revenue** | *2* | **5,576,696** | 4,977,829 |
| Cost of sales | | **(4,751,647)** | (4,148,068) |
| **Gross profit** | | **825,049** | 829,761 |
| Other income | *3* | **40,122** | 41,413 |
| Distribution costs | | **(123,835)** | (107,192) |
| Administrative expenses | | **(279,706)** | (293,970) |
| **Profit from operations** | | **461,630** | 470,012 |
| Finance costs | *4(a)* | **(117,950)** | (149,138) |
| Share of profit/(loss) of an associate | | **7,611** | (214) |
| **Profit before taxation** | *4* | **351,291** | 320,660 |
| Income tax | *5* | **(52,815)** | (54,893) |
| **Profit for the year attributable to equity shareholders of the Company** | | **298,476** | 265,767 |
| **Basic and diluted earnings per share** *(RMB yuan)* | *7* | **0.71** | 0.64 |

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 6.

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

*For the year ended 31 December 2016*
*(Expressed in Renminbi)*

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **298,476** | 265,767 |
| **Other comprehensive income for the year that may be reclassified to profit or loss:** | | |
| Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "**PRC**") | **1,493** | 270 |
| **Total comprehensive income for the year attributable to equity shareholders of the Company** | **299,969** | 266,037 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2016*
*(Expressed in Renminbi)*

| | Note | **2016** **RMB'000** | 2015 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **1,794,185** | 1,905,468 |
| Lease prepayments | | **294,461** | 301,494 |
| Interest in an associate | | **9,515** | 1,416 |
| Deferred tax assets | | **42,562** | 41,465 |
| | | **2,140,723** | 2,249,843 |
| **Current assets** | | | |
| Inventories | 9 | **963,458** | 678,262 |
| Trade and other receivables | 10 | **1,582,028** | 1,298,059 |
| Pledged deposits | | **212,815** | 278,141 |
| Cash and cash equivalents | | **443,431** | 416,012 |
| | | **3,201,732** | 2,670,474 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **1,772,676** | 1,407,636 |
| Loans and borrowings | | **1,384,150** | 1,699,467 |
| Obligations under finance leases | | **–** | 6,712 |
| Current taxation | | **27,514** | 25,197 |
| | | **3,184,340** | 3,139,012 |
| **Net current assets/(liabilities)** | | **17,392** | (468,538) |
| **Total assets less current liabilities** | | **2,158,115** | 1,781,305 |
| **Non-current liabilities** | | | |
| Loans and borrowings | | **419,252** | 301,000 |
| Deferred income | | **47,847** | 56,769 |
| Deferred tax liability | | **3,096** | 3,690 |
| | | **470,195** | 361,459 |
| **Net assets** | | **1,687,920** | 1,419,846 |
| **Capital and reserves** | | | |
| Share capital | | **3,731** | 3,731 |
| Reserves | | **1,684,189** | 1,416,115 |
| **Total equity** | | **1,687,920** | 1,419,846 |

*Notes:*

## 1 STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated results set out in this announcement do not constitute the Group's consolidated financial statements for the year ended 31 December 2016 but are extracted from those consolidated financial statements.

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (collectively referred to as the "**Group**") and are expressed in Renminbi unless otherwise indicated.

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

## 2 SEGMENT REPORTING

The Group manages its businesses by product lines. In a manner consistent with the way in which the information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has presented the following reportable segments.

- Industrial aluminium profiles: this segment manufactures and sells plain aluminium profiles, mainly for industrial usage.

- Construction aluminium profiles: this segment manufactures and sells aluminium profiles with surface finishing, including anodic oxidation aluminium profiles, electrophoresis coating aluminium profiles, powder coating aluminium profiles and PVDF coating aluminium profiles. Construction aluminium profiles are widely used in architecture decoration.

All other segments include the provision of processing services, manufacture and sale of aluminium panels, moulds and spare parts and property under development for sale.

**(a) Segment results, assets and liabilities**

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of aluminum profiles, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2016 and 2015 is set out below:

| | **Industrial aluminium profiles** | | **Construction aluminium profiles** | | **All other segments** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Reportable segment revenue** | | | | | | | | |
| Revenue from external customers | **968,861** | 757,894 | **4,522,819** | 4,138,807 | **85,016** | 81,128 | **5,576,696** | 4,977,829 |
| **Reportable segment profit** | | | | | | | | |
| Gross profit | **112,876** | 115,014 | **673,467** | 691,397 | **38,706** | 23,350 | **825,049** | 829,761 |

**(b) Reconciliations of reportable segment profit**

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Reportable segment profit derived from the Group's external customers | **825,049** | 829,761 |
| Other income | **40,122** | 41,413 |
| Distribution costs | **(123,835)** | (107,192) |
| Administrative expenses | **(279,706)** | (293,970) |
| Finance costs | **(117,950)** | (149,138) |
| Share of profit/(loss) of an associate | **7,611** | (214) |
| Consolidated profit before taxation | **351,291** | 320,660 |

## 3 OTHER INCOME

| | 2016 | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **7,455** | 10,176 |
| Government grants | | |
| – Unconditional subsidies | **13,500** | 10,494 |
| – Conditional subsidies | **17,314** | 13,524 |
| Rental income | **14,735** | 15,584 |
| Net foreign exchange gain/(loss) | **3,676** | (6,842) |
| Loss on disposal of property, plant and equipment | **(16,558)** | (1,523) |
| | **40,122** | 41,413 |

## 4 PROFIT BEFORE TAXATION

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

### (a) Finance costs

| | 2016 | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest expenses on bank loans | **102,765** | 129,090 |
| Interest expenses on discounted bills | **15,127** | 18,885 |
| Finance charges on obligations under finance leases | **58** | 1,227 |
| Total borrowing costs | **117,950** | 149,202 |
| *Less:* interest expenses capitalised into construction in progress | **–** | (64) |
| | **117,950** | 149,138 |

### (b) Staff costs:

| | 2016 | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, wages and other benefits | **467,897** | 441,233 |
| Contributions to defined contribution retirement plan | **35,561** | 29,022 |
| | **503,458** | 470,255 |

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement benefit schemes (the "**Schemes**") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees' salaries.

Contributions to the Mandatory Provident Fund ("**MPF**") are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The Group and its employees in Hong Kong make monthly mandatory contributions to the MPF scheme at 5% of the employees' relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The contributions from employees and employers are subject to a cap of monthly relevant income of HKD30,000 for the year ended 31 December 2016 (2015: HKD30,000).

The Group has no other material obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

**(c) Other items:**

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Depreciation (i) | **280,468** | 176,964 |
| Amortisation of lease prepayments (i) | **7,033** | 7,033 |
| Research and development costs (ii) | **23,898** | 23,477 |
| Impairment losses on trade and other receivables | **6,824** | 17,260 |
| Auditors' remuneration | | |
| – audit services | **1,140** | 1,100 |
| – other services | **683** | 620 |
| Cost of inventories (i) | **4,751,647** | 4,148,068 |
| Operating lease charges (i) | **1,458** | 823 |

(i) Cost of inventories for the year ended 31 December 2016 included RMB568,544,000 (2015: RMB432,225,000) relating to depreciation, amortisation, operating lease charges and staff costs, which amount is also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

(ii) Research and development costs include RMB10,228,000 (2015: RMB9,762,000) relating to staff costs of employees which amount is also included in total staff costs as disclosed in Note 4(b).

## 5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

**(a) Taxation in the consolidated statement of profit or loss represents:**

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC corporate income tax | **53,388** | 52,084 |
| Provision for Hong Kong Profits Tax | **1,118** | 930 |
| | **54,506** | 53,014 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(1,691)** | 1,879 |
| | **52,815** | 54,893 |

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the "**BVI**"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) The provision for Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2016 (2015: 16.5%).

(iii) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for 2016 (2015: 25%) except for Guangdong Xingfa Aluminium Co., Ltd. ("**Guangdong Xingfa**"), Xingfa Aluminium (Chengdu) Co., Ltd. ("**Chengdu Xingfa**"), Guangdong Xingfa Aluminium (Henan) Co., Ltd. ("**Xingfa Henan**") and Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. ("**Xingfa Jiangxi**") which were certified as "Advanced and New Technology Enterprises" ("**ANTE**") and entitled to the preferential income tax rate of 15% for 2016 (2015: 15%).

(iv) Pursuant to the new tax law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. As Guangdong Xingfa is held by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

At 31 December 2016, deferred tax liabilities of RMB3,096,000 (2015: RMB3,690,000) have been provided for in this regard based on the expected dividends to be distributed from Guangdong Xingfa in the foreseeable future in respect of the profits generated since 1 January 2008.

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **351,291** | 320,660 |
| Notional tax on profit before taxation, calculated at the rates applicable to the jurisdiction concerned | **91,827** | 83,208 |
| Tax effect of non-deductible expenses | **837** | 758 |
| Tax effect of share of (profit)/loss of an associate | **(159)** | 32 |
| Effect of tax concession | **(35,800)** | (32,795) |
| Super deduction on research and development expenses in respect of 2015 (i) | **(3,296)** | – |
| Withholding tax effect on undistributed profits retained by PRC subsidiaries | **(594)** | 3,690 |
| Income tax expenses | **52,815** | 54,893 |

(i) During the year of 2016, Guangdong Xingfa and Xingfa Henan obtained approval from local tax authorities to claim super deduction on research and development expenses. As such, the income tax for 2016 was reduced by RMB3,296,000 (2015: Nil). Such additional tax deduction on research and development expenses equals 50% of the amount actually incurred.

## 6 DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividends proposed after the end of reporting period (2015: HKD9 cents per ordinary share) | **–** | 31,518 |

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: HKD9 cents per ordinary share).

The final dividends proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividends in respect of the previous financial year, approved and paid during the year, of HKD9 cents per ordinary share (2015: HKD9 cents per ordinary share) | **31,895** | 30,152 |

## 7 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB298,476,000 (2015: RMB265,767,000) and the weighted average number of 418,000,000 ordinary shares (2015: 418,000,000 shares).

There were no dilutive potential ordinary shares in issue for the years ended 31 December 2016 and 2015, and therefore, the diluted earnings per share are the same as the basic earnings per share.

## 8 PROPERTY, PLANT AND EQUIPMENT

| | Buildings and plants<br>*RMB'000* | Machinery<br>*RMB'000* | Motor Vehicles<br>*RMB'000* | Office equipment and others<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2015 | 977,563 | 1,227,448 | 26,361 | 139,986 | 57,188 | 2,428,546 |
| Additions | – | 158,221 | 1,321 | 5,760 | 35,944 | 201,246 |
| Transfer from construction in progress | 42,939 | 31,609 | 26 | 1,149 | (75,723) | – |
| Disposal | – | (2,007) | (110) | – | – | (2,117) |
| At 31 December 2015 | 1,020,502 | 1,415,271 | 27,598 | 146,895 | 17,409 | 2,627,675 |
| At 1 January 2016 | 1,020,502 | 1,415,271 | 27,598 | 146,895 | 17,409 | 2,627,675 |
| Additions | 4,062 | 145,635 | 1,572 | 3,148 | 31,843 | 186,260 |
| Transfer from construction in progress | 15,310 | 19,924 | 67 | – | (35,301) | – |
| Disposal | (599) | (34,647) | (978) | – | – | (36,224) |
| At 31 December 2016 | 1,039,275 | 1,546,183 | 28,259 | 150,043 | 13,951 | 2,777,711 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2015 | (76,752) | (373,980) | (17,313) | (77,762) | – | (545,807) |
| Charge for the year | (28,479) | (116,808) | (2,329) | (29,348) | – | (176,964) |
| Written back on disposals | – | 488 | 76 | – | – | 564 |
| At 31 December 2015 | (105,231) | (490,300) | (19,566) | (107,110) | – | (722,207) |
| At 1 January 2016 | (105,231) | (490,300) | (19,566) | (107,110) | – | (722,207) |
| Charge for the year | (29,410) | (231,343) | (1,916) | (17,799) | – | (280,468) |
| Written back on disposals | 194 | 18,061 | 894 | – | – | 19,149 |
| At 31 December 2016 | (134,447) | (703,582) | (20,588) | (124,909) | – | (983,526) |
| **Net book value:** | | | | | | |
| At 31 December 2016 | 904,828 | 842,601 | 7,671 | 25,134 | 13,951 | 1,794,185 |
| At 31 December 2015 | 915,271 | 924,971 | 8,032 | 39,785 | 17,409 | 1,905,468 |

(i) All properties owned by the Group are located in the PRC.

(ii) Up to the date of this report, the Group is in the process of applying for the title certificates of certain properties with carrying value of approximately RMB248,150,000 as at 31 December 2016 (2015: RMB258,986,000). The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact that the Group has not yet obtained the relevant property title certificates.

(iii) Certain plants with net book value of RMB483,163,000 (2015: RMB535,009,000) were pledged as securities for bank loans of the Group as at 31 December 2016.

As at 31 December 2016, there was no equipment held under the finance lease (31 December 2015: net book value of RMB85,122,000).

(iv) Change in estimates

The aluminium profiles are extruded or forced though moulds in different shapes, which are recorded under machinery and are designed to fulfil respective sales orders. The management had previously expected that the moulds could be generally used for 4 years, which is in line with the average sales cycle of aluminium profiles. With the technology improvement in aluminium engineering, the sales cycle of most aluminium profiles were less than 4 years, which in turn led to be shorter of the expected useful life of moulds.

In addition, the management previously expected that the moulds could retain a residual value of 20.51% after 4 years' usage. However, based on past years' experience and current market conditions, the residual value of these moulds was minimal.

Considering the above facts, circumstances and report from internal technicians, the management changed the estimates for the expected useful life of moulds to 3 years with no residual value. As a result, the expected useful life of the moulds decreased and its estimated residual value decreased. The effect of these changes on depreciation expense, recognized in 'cost of sales' in current and future periods, is as follows:

| *RMB'000* | **2016** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| Increase/(decrease) in depreciation expense | 93,306 | 47,039 | 9,374 | (15,094) | (16,204) |

## 9 INVENTORIES

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

| | **2016**<br>***RMB'000*** | 2015<br>*RMB'000* |
|---|---|---|
| **Aluminium profiles manufacturing** | | |
| Raw materials | **274,478** | 143,275 |
| Work in progress | **82,074** | 73,261 |
| Finished goods | **352,628** | 290,021 |
| | **709,180** | 506,557 |
| **Property under development for sale** | | |
| Lease prepayment | **47,388** | 47,388 |
| Deed tax | **4,760** | 4,760 |
| Construction cost | **202,130** | 119,557 |
| | **254,278** | 171,705 |
| | **963,458** | 678,262 |

The balance of property under development for sale is expected to be recovered after more than one year.

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

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount of inventories sold | **4,751,647** | 4,148,068 |

Certain inventories with carrying value of RMB100,000,000 were pledged as securities for bank loans of the Group as at 31 December 2016 (31 December 2015: RMB40,000,000).

## 10 TRADE AND OTHER RECEIVABLES

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade debtors | **846,599** | 646,697 |
| Bills receivable | **675,086** | 585,037 |
| *Less:* allowance for doubtful debts | **(32,885)** | (27,906) |
| | **1,488,800** | 1,203,828 |
| Other receivables | **13,882** | 17,260 |
| *Less:* allowance for doubtful debts | **(1,845)** | – |
| | **12,037** | 17,260 |
| Prepayments and deposits | **81,191** | 76,971 |
| | **1,582,028** | 1,298,059 |

Certain bills receivable with carrying value of RMB209,216,000 were pledged as securities for bank loans of the Group as at 31 December 2016 (31 December 2015: RMB260,292,000).

The Group's trade and other receivables included amounts due from related parties of RMB78,695,000 (31 December 2015: RMB58,672,000). The remaining current trade and other receivables are expected to be recovered or recognised as expense within one year.

**Aging analysis**

As of the end of the reporting period, the aging analysis of trade debtors 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:

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 month | **879,189** | 638,927 |
| 1 to 3 months | **394,522** | 354,993 |
| 3 to 6 months | **181,662** | 178,111 |
| Over 6 months | **33,427** | 31,797 |
| | **1,488,800** | 1,203,828 |

Trade debtors and bills receivable are due within 60 days to 90 days from the date of billing.

## 11 TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Trade payables | **683,596** | 530,181 |
| Bills payable (i) | **637,850** | 471,949 |
| Receipts in advance | **124,281** | 117,033 |
| Accrued payroll and benefits | **135,220** | 117,579 |
| Other payables and accruals | **166,604** | 145,600 |
| Deferred income | **25,125** | 25,294 |
| | **1,772,676** | 1,407,636 |

Amounts due to related parties are included in trade and other payables. All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

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

| | 2016 | 2015 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Within 1 month | **496,569** | 389,080 |
| 1 to 3 months | **653,090** | 397,157 |
| 3 to 6 months | **145,557** | 198,503 |
| Over 6 months | **26,230** | 17,390 |
| | **1,312,446** | 1,002,130 |

(i) Bills payable were secured by pledged bank deposits of RMB206,900,000 as at 31 December 2016 (31 December 2015: RMB179,893,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY AND BUSINESS OVERVIEW

Xingfa Aluminium is one of the leading aluminium profiles manufacturers in the PRC and principally engaged in the manufacture and sale of aluminium profiles which are applied as construction and industrial materials. Currently, we are one of the largest providers of electricity conductive aluminium profile for metro vehicles in the PRC. Leveraging on our advanced research and development capability and commitment to quality, our Group has established extensive and stable sales networks in the PRC and overseas for the past 30 years.

## FINANCIAL REVIEW

### Revenue

Revenue and sales volume recorded approximately RMB5,576.7 million and 324,645 tonnes for the year ended 31 December 2016 ("**Year**") respectively (2015: RMB4,977.8 million and 289,137 tonnes). The increase in revenue during the Year was mainly due to the increase in sales volume.

Our sales volume increased by approximately 12% year-on-year to 324,645 tonnes in the Year. In particular, industrial aluminium profiles increased by approximately 24% year-on-year to 63,640 tonnes in the Year (2015: 51,163 tonnes). Our sales volume for construction aluminium profiles also increased by approximately 10% year-on-year to 261,005 tonnes (2015: 237,974 tonnes).

### Cost of sales

Our cost of sales increased by approximately 15% year-on-year to RMB4,751.6 million in the Year (2015: RMB4,148.1 million) which was aligned with the increase in revenue.

### Gross profit and gross profit margin

Gross profit margin decreased to 14.8% during the Year (2015: 16.7%) and sales to production ratio slightly decreased to 99% (2015: 100%).

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

| | **2016** | 2015 |
|---|---|---|
| Industrial aluminium profiles | **11.7%** | 15.2% |
| Construction aluminium profiles | **14.9%** | 16.7% |

The slight decrease of gross profit margin by 1.9 percentage point was mainly due to the Group lowered the processing fee in order to maintain the existing customers and attract new customers in the Year.

**Other income**

Our Group recorded other income of approximately RMB40.1 million for the Year (2015: RMB41.4 million).

Government grants represent various forms of incentives and subsidies received from the local government authorities in the PRC. During the Year, the Group recognized government grants of approximately RMB30.8 million (2015: RMB24 million) as other income. Besides, due to the appreciation of foreign currencies against Renminbi during the Year, our Group recorded the net foreign exchange gains of approximately RMB3.7 million (2015: losses of RMB6.8 million), in relation to the receivables denominated in foreign currencies.

In contrary, due to the decrease in pledge deposit balance during the Year and lower interest rate applicable to pledged deposit, interest income decreased to approximately RMB7.5 million (2015: RMB10.2 million). In addition, the Group recorded loss on disposal of fixed assets of approximately RMB16.6 million (2015:RMB1.6 million) for the Year, mainly because the Group conducted an operational efficiency review on its machineries at the end of the Year, and disposed some of the moulds with net book value of RMB15.8 million (2015:Nil), which were no longer suitable for the current production.

**Distribution costs**

Distribution costs increased by approximately 16% to approximately RMB123.8 million for the Year (2015: RMB107.2 million), which was aligned with the increase in revenue.

**Administrative expenses**

Administrative expenses were approximately RMB279.7 million for the Year, which was approximately 5% lower than that in 2015 (2015: RMB294.0 million). During the Year, by strengthening our balance sheet management, we made less provision for bad debt of trade and other receivables during the Year of RMB6.8 million (2015:RMB17.3 million). Our administrative expenses as a percentage of revenue also decreased to approximately 5.0% (2015: 5.9%).

### Finance costs

Finance costs decreased by approximately 21% to approximately RMB118.0 million for the Year (2015: RMB149.1 million) mainly due to the decrease in average loans borrowings and average borrowing interest rate during the Year.

### Profit for the Year and the net profit margin

During the Year, our Group recorded profit for the year of approximately RMB298.5 million (2015: RMB265.8 million) and the net profit margin kept stable at 5.4% (2015:5.3%).

## ANALYSIS OF FINANCIAL POSITION

### Current and quick ratios

The following table sets out the summary of our Group's current and quick ratios as at 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Current Ratio *(Note)* | **1.01** | 0.85 |
| Quick Ratio *(Note)* | **0.70** | 0.63 |

*Note:*

Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the year.

Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the year.

During the year, sales orders and sales volume increased due to the successful implementation of marketing strategies and expansion of sales channels, leading to increase in both trade receivables and inventories. As such, both current ratio and quick ratio increased in the year.

### Gearing ratio

The following table sets out the summary of our Group's gearing ratio as at 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Gearing ratio *(Note)* | **33.8%** | 40.8% |

*Note:*

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

Benefited from the improvement in operating cash flows, our Group borrowed less from banks in the Year as compared to that in 2015. As such, gearing ratio dropped in the Year.

**Inventory Turnover Days**

The following table sets out the summary of our Group's inventory turnover days during the years ended 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Inventory Turnover Days *(Note)* | **63** | 58 |

*Note:*

Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the periods divided by the total cost of sales during the years multiplied by 365 days.

Inventories balance as at the respective years ended 31 December 2016 and 2015 represents aluminium profiles segment including our raw materials, work in progress and the unsold finished goods and property under development for sale.

The inventory turnover days increased due to: 1) the increased balance of property under development for sale; 2) the Group stocked up more raw materials in advance with as it anticipated that the aluminium ingot price may increase in early 2017.

**Debtors' Turnover days**

The following table sets out the summary of our Group's debtors turnover days during the years ended 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Debtors' Turnover Days *(Note)* | **88** | 95 |

*Note:*

Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables for the periods divided by turnover during the years multiplied by 365 days.

During the Year, we have successfully recovered certain aged receivables. As a result, debtors' turnover days in the Year was improved.

## Creditors' Turnover days

The following table sets out the summary of our Group's creditors turnover days during the years ended 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Creditors' Turnover Days *(Note)* | **89** | 105 |

*Note:*

Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the periods divided by the total cost of sales during the years multiplied by 365 days.

Benefiting from the increasing profit and effective cash management in these two years, less payables recorded at the end of 31 December 2015 and 2016, which led to the creditors' turnover days decreased to normal level in 2016.

## Cash flow

The table below summarises our Group's cash flow during the years ended 31 December 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| | ***RMB'million*** | *RMB'million* |
| Net cash generated from operating activities | **488.7** | 464.2 |
| Net cash used in investing activities | **(115.2)** | (161.8) |
| Net cash used in financing activities | **(352.4)** | (196.2) |

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

## Capital expenditures

Capital expenditure was used for acquisition of property, plant and equipment and lease prepayment. During the Year, our Group's capital expenditures were approximately RMB188.0 million (2015: RMB224.1 million). The significant capital expenditures during the Year were mainly for the acquisition of equipment for Xingfa's four plants.

### Loans and borrowings

As at 31 December 2016, our Group's loans and borrowings amounted to approximately RMB1,803.4 million (31 December 2015: RMB2,000.5 million).

### Banking facilities and guarantee

As at 31 December 2016, the banking facilities of our Group amounted to approximately RMB4,006.3 million (31 December 2015: RMB3,564.5 million), of which approximately RMB2,311.0 million were utilised (31 December 2015: RMB2,222.0 million).

No banking facilities were guaranteed by related parties.

### Human resources

As at 31 December 2016, our Group employed a total of approximately 6,091 full time employees in the PRC which included management staff, technicians, salespersons and workers. In 2016, our Group's total expenses on the remuneration of employees were approximately RMB503.5 million, represented 9.0% of the revenue of our Group. Our Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

## PROSPECTS

In line with our prudent approach and in view of the fragile China economic environment, strengthening balance sheet management, optimizing product mix and enhancing operating efficiency are still our main focuses in 2017. Meanwhile, aiming to develop Xingfa as an all-rounded and one-stop aluminium service provider, we are actively looking for business opportunities for both semi-upstream and downstream merger and acquisitions in China.

## FINAL DIVIDEND

The Board did not recommend the payment of a final dividend per ordinary share for the year ended 31 December 2016 (2015: HKD9 cents).

## CORPORATE GOVERNANCE

In the opinion of the Directors, save as mentioned below, the Company had met all the code provisions set out in the Corporate Governance Code contained in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the year ended 31 December 2016.

According to the code provision A.1.1 of the Corporate Governance Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year ended 31 December 2016, the Board has held two full board meetings. Instead, the Board has discussed the company matters through exchange of emails and informal meetings among the Directors and obtaining board consent through circulating written resolutions.

Code Provision of A.2.7 of the Corporate Governance Code requires the chairman to hold meetings at least annually with the non-executive directors (including independent non-executive directors) without the executive directors present. As Mr. LIU Libin, the Chairman of the Board, is also an executive Director, the Company has deviated from this code provision as it is not applicable. Currently, the Chairman may communicate with the non-executive Directors on a one-to-one or group basis periodically to understand their concerns, to discuss pertinent issues and to ensure that there is access to adequate and complete information.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors, the Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code for the year ended 31 December 2016.

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

## REVIEW BY THE AUDIT COMMITTEE

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

The audit committee is composed of three independent non-executive Directors namely, Mr. CHEN Mo, Mr. HO Kwan Yiu and Mr. LAM Ying Hung Andy and the non-executive Director namely, Mr. CHEN Shengguang. Mr. LAM serves as the chairman of the audit committee of the Company. The chairman of the audit committee has professional qualification and experience in financial matters.

The audit committee of the Company has met with the management and external auditors of the Company and has reviewed the consolidated results of the Group for the year ended 31 December 2016.

## SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2016.

## PUBLICATION OF 2016 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xingfa.com), and the 2016 annual report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

On behalf of the Board of
**Xingfa Aluminium Holdings Limited**
**LIU Libin**
*Chairman*

Foshan China, 31 March 2017

As at the date of this announcement, the Board comprises the following members:

| | |
|---|---|
| *Executive Directors:* | Mr. LIU Libin *(Chairman)*<br>Mr. LUO Su *(Honorary Chairman)*<br>Mr. LUO Riming *(Chief Executive Officer)*<br>Mr. LIAO Yuqing<br>Mr. DAI Feng *(Chief Financial Officer)*<br>Mr. LAW Yung Koon<br>Mr. WANG Zhihua |
| *Non-executive Director:* | Mr. CHEN Shengguang |
| *Independent non-executive Directors:* | Mr. CHEN Mo<br>Mr. HO Kwan Yiu<br>Mr. LAM Ying Hung Andy<br>Mr. LIANG Shibin |
| *Alternate Director:* | Mr. WONG Siu Ki as an alternate director to Mr. LIU Libin *(Chief Investment Officer)* |