

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 98)

ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS

1. Revenue decreased by 8.6% to approximately RMB4,526.6 million (1H19: RMB4,954.9 million).
2. Sales volume dropped by 6.8% to approximately 258,830 tonnes (1H19: 277,654 tonnes).
3. Profit attributable to shareholders of the Company increased by 6.8% to approximately RMB252.8 million (1H19: RMB236.7 million).
4. Earnings per share were RMB0.60 (1H19: RMB0.57).
5. The Board did not recommend any payment of an interim dividend for 1H20 (1H19: Nil).

RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Xingfa Aluminium Holdings Limited (“**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as “**Group**”, “**our Group**”, “**we**”, “**us**” or “**Xingfa Aluminium**”) prepared under International Financial Reporting Standards (“**IFRSs**”) for the six months ended 30 June 2020 (“**1H20**”), together with the comparative figures for the corresponding period in June 2019 (“**1H19**”) and the relevant explanatory notes as set out below. The consolidated results are unaudited, but have been reviewed by the audit committee of the Board and the Company’s independent auditors, KPMG.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	3	4,526,551	4,954,876
Cost of sales	4 & 8	(3,950,294)	(4,326,252)
Gross profit		576,257	628,624
Other income		51,865	30,685
Distribution costs		(143,225)	(111,891)
Administrative expenses		(182,123)	(188,638)
Reversal/(charge) of impairment losses on trade receivables and other receivables		12,522	(15,929)
Profit from operations		315,296	342,851
Finance costs	4(a)	(50,037)	(74,044)
Share of profit of an associate		1,799	4,793
Profit before taxation	4	267,058	273,600
Income tax	5	(16,466)	(39,132)
Profit for the period		250,592	234,468
Attributable to:			
Equity shareholders of the Company		252,761	236,686
Non-controlling interests		(2,169)	(2,218)
Profit for the period		250,592	234,468
Earnings per share	7		
Basic (RMB yuan)		0.60	0.57
Diluted (RMB yuan)		0.60	0.57

Note:

Details of dividends payable to equity shareholders of the Company are set out in note 6.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi)*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Profit for the period	250,592	234,468
Other comprehensive income for the period may be reclassified to profit or loss:		
Exchange differences on translation of financial statements of operations outside the Mainland China	(83)	(371)
Cash flow hedge: net movement in the hedging reserve	55,023	–
Other comprehensive income for the period	54,940	(371)
Total comprehensive income for the period	305,532	234,097
Attributable to:		
Equity shareholders of the Company	307,701	236,315
Non-controlling interests	(2,169)	(2,218)
Total comprehensive income for the period	305,532	234,097

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

(Expressed in Renminbi)

		At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
	Note		
Non-current assets			
Investment property		70,636	71,694
Other property, plant and equipment		2,168,195	2,188,673
		2,238,831	2,260,367
Right-of-use assets		343,239	358,620
Intangible assets		3,985	–
Interest in an associate		–	5,791
Deferred tax assets		45,411	43,641
		2,631,466	2,668,419
Current assets			
Inventories and other contract costs	8	1,278,335	1,134,375
Trade and other receivables	9	3,122,255	3,103,556
Pledged deposits		165,332	327,037
Cash and cash equivalents		544,262	528,003
		5,110,184	5,092,971
Current liabilities			
Trade and other payables	10	2,518,710	2,738,786
Contract liabilities	11	306,873	164,027
Loans and borrowings		1,305,137	1,284,005
Lease liabilities		2,271	6,907
Current taxation		31,400	68,648
		4,164,391	4,262,373
Net current assets		945,793	830,598
Total assets less current liabilities		3,577,259	3,499,017
Non-current liabilities			
Loans and borrowings		297,635	414,407
Lease liabilities		7,460	13,921
Deferred income		20,786	20,200
Deferred tax liabilities		17,094	11,609
		342,975	460,137
NET ASSETS		3,234,284	3,038,880
CAPITAL AND RESERVES			
Share capital		3,731	3,731
Reserves		3,228,055	3,034,604
Total equity attributable to equity shareholders of the Company		3,231,786	3,038,335
Non-controlling interests		2,498	545
TOTAL EQUITY		3,234,284	3,038,880

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Operating activities		
Cash generated from operations	266,414	434,102
Income tax paid	(57,872)	(58,119)
Land Appreciation Tax paid	(460)	(1,250)
Net cash generated from operating activities	208,082	374,733
Investing activities		
Interest received	20,072	11,602
Payment for the purchase of property, plant and equipment	(231,929)	(237,819)
Payment for pledged deposits	(607,341)	(512,735)
Proceeds received upon maturity of pledged deposits	769,046	473,419
Payment for deposit of future contract	(80,000)	–
Proceeds from disposal of property, plant and equipment	30	3,149
Net cash used in investing activities	(130,122)	(262,384)
Financing activities		
Capital element of lease rentals paid	(2,537)	(401)
Interest element of lease rentals paid	(400)	(221)
Interest paid	(49,688)	(84,046)
Proceeds from loans and borrowings	628,045	1,468,053
Repayment of loans and borrowings	(530,751)	(1,329,223)
Capital injecting from the non-controlling interest of subsidiary	–	2,300
Dividends paid to equity shareholders of the Company	(106,904)	(73,465)
Net cash used in financing activities	(62,235)	(17,003)
Net increase in cash and cash equivalents	15,725	95,346
Cash and cash equivalents at 1 January	528,003	448,787
Effect of foreign exchange rates changes	534	107
Cash and cash equivalents at 30 June	544,262	544,240

Notes:

1 BASIS OF PREPARATION

This unaudited interim financial information was extracted from the interim financial report of Xingfa Aluminium Holdings Limited (the “**Company**”) and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“**IASB**”). It was authorised for issue on 20 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of the changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

2 CHANGES IN ACCOUNTING POLICIES

The Group has applied the following amendment to IFRSs issued by the IASB to the financial report for the current accounting period:

- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

None of the development have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

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

- Industrial aluminium profiles: this segment manufactures and sells plain aluminium profiles, mainly for industrial usage.
- Construction aluminium profiles: this segment manufactures and sells aluminium profiles with surface finishing, including anodic oxidation aluminium profiles, electrophoresis coating aluminium profiles, powder coating aluminium profiles and PVDF coating aluminium profiles. Construction aluminium profiles are widely used in architecture decoration.
- Property development: this segment develops and sells office premises and residential properties.
- Other products and services included the provision of processing services, manufacturing and sale of aluminium alloy, moulds and spare parts. None of these products and services meets any of the quantitative thresholds for determining reportable segments according to IFRS 8.

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated of product lines		
– Industrial aluminium profiles	968,494	1,070,592
– Construction aluminium profiles	3,457,194	3,781,875
– Sales of completed properties	6,968	16,778
– Other products and services	93,895	85,631
	4,526,551	4,954,876
Disaggregated by geographical location of customers		
– Mainland China, except for Hong Kong	4,462,046	4,828,556
– Hong Kong	22,583	82,468
– Asia Pacific, except for Mainland China and Hong Kong	41,015	31,857
– Africa	246	11,437
– Other regions	661	558
	4,526,551	4,954,876

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

During the six months ended 30 June 2020, the Group's customer base is diversified and does not include any individual customer (six months ended 30 June 2019: Nil) with whom transactions have exceeded 10% of the Group's revenue.

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

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below:

	Industrial aluminium profiles		Construction aluminium profiles		Property development		All other segments		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers recognised by point in time	968,494	1,070,592	3,457,194	3,781,875	6,968	16,778	93,895	85,631	4,526,551	4,954,876
Reportable segment profit										
Gross profit	104,353	106,983	439,031	483,885	3,240	9,823	29,633	27,933	576,257	628,624

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Reportable segment profit derived from the Group's external customers	576,257	628,624
Other income	51,865	30,685
Distribution costs	(143,225)	(111,891)
Administrative expenses	(182,123)	(188,638)
Reversal/(charge) of impairment losses on trade receivables and other receivables	12,522	(15,929)
Finance costs	(50,037)	(74,044)
Share of profit of an associate	1,799	4,793
Consolidated profit before taxation	267,058	273,600

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

(a) Finance costs

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank loans	47,349	66,765
Interest expenses on discounted bills	1,558	7,058
Interest on lease liabilities	400	221
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	49,307	74,044
Cash flow hedges instruments reclassified from equity	730	–
	<hr/>	<hr/>
	50,037	74,044
	<hr/>	<hr/>

(b) Staff costs

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages, bonuses and benefits	324,786	306,710
Equity-settled share-based payment expenses	1,269	1,319
Contribution to defined contribution retirement schemes	19,805	29,741
	<hr/>	<hr/>
	345,860	337,770
	<hr/>	<hr/>

To relieve the difficulties encountered by enterprises due to COVID-19 pandemic, pursuant to related policies consented by the State Council of the People's Republic of China (the "PRC"), major subsidiaries of the Company in the PRC were entitled to reduce its contribution to the pension insurance, unemployment insurance, and work injury insurance by 50% with effect from February 2020.

(c) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Depreciation charge		
– Investment properties	1,058	–
– Other property, plant and equipment	200,754	156,945
– Right-of-use assets	6,855	4,985
Amortisation cost of intangible assets	137	–
Net foreign exchange loss/(gain)	996	(514)
Net gain on cash flow hedging instruments reclassified from equity	(1,949)	–
Changes in fair value of future contracts recognised as hedge ineffectiveness	(6,113)	–
Interest income	20,072	11,602
Cost of inventories (i)/(Note 8)	3,950,294	4,326,252
Research and development costs (ii)	200,898	147,488

(i) During the six months ended 30 June 2020, cost of inventories included RMB186,442,000 relating to depreciation (six months ended 30 June 2019: RMB141,550,000), which amount is also included in the respective total amounts disclosed separately above, and RMB202,544,000 relating to staff costs (six months ended 30 June 2019: RMB193,870,000) as disclosed in Note 4(b).

(ii) Research and development costs for the period ended 30 June 2020 included RMB54,653,000 (six months ended 30 June 2019: RMB36,954,000) relating to staff costs of employees which amount is also included in total staff costs as disclosed in Note 4(b).

5 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax – PRC corporate income tax	15,084	33,319
Current tax – Hong Kong Profits Tax	–	257
Provision for PRC Land Appreciation Tax (“LAT”)	–	4,073
Deferred taxation	1,382	1,483
	16,466	39,132

(i) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 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 the six months ended 30 June 2020 (six months ended 30 June 2019: 15%).

- (ii) At 30 June 2020, deferred tax liabilities of RMB8,761,000 (that of 2019: RMB11,609,000) have been provided for in this regard based on the expected dividends to be distributed from Guangdong Xingfa in the foreseeable future in respect of the profits generated since 1 January 2008.
- (iii) During the six months ended 30 June 2020, Guangdong Xingfa, Xingfa Henan and Xingfa Jiangxi obtained approval from local tax authorities to claim super deduction on research and development expenses. As such, the income tax for the six months ended 30 June 2020 was reduced by RMB18,002,000 (six months ended 30 June 2019: RMB11,843,000). Such additional tax deduction on research and development expenses equals 75% (2019: 75%) of the amount actually incurred.

6 DIVIDENDS

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

The directors do not propose any payment of interim dividends for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2020 of HKD0.28 per share (six months ended 30 June 2019: HKD0.20 per share)	106,904	73,465

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB252,761,000 (six months ended 30 June 2019: RMB236,686,000) and the weighted average number of 418,000,000 ordinary shares (six months ended 30 June 2019: 418,000,000 shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB252,761,000 (six months ended 30 June 2019: RMB236,686,000) and the weighted average number of ordinary shares of 418,564,000 shares (six months ended 30 June 2019: 418,000,000 shares), calculated as follows.

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to ordinary equity shareholders (diluted)	252,761	236,686

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Weighted average number of ordinary shares at 30 June	418,000	418,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	564	–
Weighted average number of ordinary shares (diluted) at 30 June	418,564	418,000

For the period ended 30 June 2019, the effect of the Company's Share Option Scheme was anti-dilutive.

8 INVENTORIES AND OTHER CONTRACT COSTS

	At	At
	30 June	31 December
	2020	2019
	RMB'000	RMB'000
Inventories		
Aluminium products		
– Raw materials	384,028	312,721
– Work in progress	109,881	110,018
– Finished goods	534,861	461,193
	1,028,770	883,932
Property development		
– Land use rights	28,424	28,538
– Deed tax	2,855	2,866
– Construction costs	218,286	219,039
	249,565	250,443
Other contract costs	–	–
	1,278,335	1,134,375

Note:

During the six months ended 30 June 2020, inventories of RMB3,950,294,000 (2019: RMB4,326,252,000) were recognised as an expense and included in “cost of sales”. No inventory provision was recorded in this period (2019: Nil).

9 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	993,175	1,574,144
1 to 3 months	1,116,774	704,279
3 to 6 months	251,706	393,040
Over 6 months	374,472	153,369
Trade debtors and bills receivable, net of allowance for doubtful debts (i)(ii)	2,736,127	2,824,832
Other debtors, net of loss allowance (iii)	169,634	79,887
Financial assets measured at amortised cost	2,905,761	2,904,719
Dividend receivable	27,655	19,855
Deposits and prepayments	95,919	178,982
Derivative financial instruments (iv)		
– Cross-currency interest rate swap	1,045	–
– Future contracts	91,875	–
	3,122,255	3,103,556

- (i) Trade debtors and bills receivable are due within 60 days to 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.
- (ii) Certain bills receivable with carrying value of RMB893,000 were pledged as securities for bank loans of the Group as at 30 June 2020 (31 December 2019: Nil).
- (iii) As at 30 June 2020, loss allowances of RMB2,275,000 was recognised on other debtors (31 December 2019: RMB2,294,000).

As at 30 June 2020, amount of RMB57,720,000 were deposit which was due from a financial institution for purchase of future contracts and repayable on demand (31 December 2019: Nil).

- (iv) 1) As at 30 June 2020, the Group entered into cross-currency interest rate swap contracts with HSBC Bank (China) Company Limited in respect of short-term loans in aggregate of US\$15,000,000 (equivalent to RMB104,940,000), under which the Group converted the US dollar loans at floating exchange rate into RMB loans at fixed-rate. The purpose of the cross-currency interest rate swap contracts is to hedge against the interest rate risk and foreign currency risk of the U.S. dollar liabilities.

The cross-currency interest rate swaps contracts mature in August 2020 matching the maturity of the related loans. The Group applies a hedge ratio of 1:1. The existence of an economic relationship between cross-currency interest rate swap contracts and the US dollar floating-rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the loans.

The balance of cross-currency interest rate swap of RMB1,045,000 represented the fair value of the cross-currency interest rate swap as at 30 June 2020 (31 December 2019: financial liabilities of RMB698,000).

- 2) As at 30 June 2020, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those future contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of the future contracts but instead designates the future contract in its entirety in a hedging relationship.

The Group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the future contracts and the highly probable forecast purchase transactions based on: the underlying for hedging instruments and the hedged items are economically related. The basic variables of the hedging instruments and the hedged items are standard aluminium prices. The effect of credit risk does not dominate the value changes.

The balance of future contracts of RMB91,875,000 represented the principals and fair value upward of the future contracts as at 30 June 2020 (31 December 2019: Nil).

10 TRADE AND OTHER PAYABLES

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

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 1 month	833,676	715,231
1 to 3 months	478,351	384,420
3 to 6 months	269,565	583,421
Over 6 months	410,883	415,735
Trade creditors and bills payable	<u>1,992,475</u>	<u>2,098,807</u>
Trade payables	834,397	814,775
Bills payable	1,158,078	1,284,032
Accrued payroll and benefits	143,405	219,521
Other payables and accruals	352,735	392,202
Interest payable	2,158	2,209
Deferred income	27,937	25,349
Financial liabilities measured at amortised cost	2,518,710	2,738,088
Derivative financial instrument		
– Cross-currency interest rate swap (<i>Note 9(iv)</i>)	–	698
	<u>2,518,710</u>	<u>2,738,786</u>

11 CONTRACT LIABILITIES

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Aluminium profiles		
– Billings in advance of performance	306,791	163,923
Property development		
– Forward sales deposits and instalments received	82	104
	<u>306,873</u>	<u>164,027</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Xingfa Aluminium is one of the leading aluminium profiles manufacturers in the PRC and is principally engaged in the manufacture and sale of aluminium profiles, which are being used as construction and industrial materials. Since 2002, the Group has been awarded the “No. 1 of the National Construction Aluminium Profiles Enterprise” by China Non-Ferrous Metals Fabrication Industrial Association for three consecutive sessions. As of 30 June 2020, the Group had obtained around 1,493 national patents and participated in the drafting of around 90 national and industry standards. Currently, we are also one of the world’s largest suppliers of electricity conductive aluminium profiles for metro vehicles. In recent three years, the Group has focused on establishing our sales outlets in the prefecture-level cities in Southern China and Eastern China, and at the same time invested our resources to establish sales outlets in key cities of relatively underdeveloped regions, with apparent positive results seen from their regional sales data.

BUSINESS REVIEW

At the beginning of 2020, the outbreak of the COVID-19 pandemic had caused domestic real estate developers to suspend the operation in construction sites temporarily across the country, causing a drop in real estate aluminum consumption from its January high. However, with the pandemic gradually under control, the construction progress of real estate projects has gradually resumed to normal and the aluminum consumption volume in the real estate sector continued to rise in recent months. The volume of aluminum consumed in the real estate industry in the first half of the year was about 6.5 million tonnes, representing a slight drop of 2.4% as compared with the same period last year (Source: Sublime China Information), which indicated a steady recovery in the domestic real estate market, and the overall demand for aluminum in the first half of the year was only slightly affected.

During the period under review, the overall operation of the Group was temporarily affected by the pandemic. In terms of production, in order to strengthen the pandemic prevention and control, the central government announced that the 2020 Chinese New Year holidays were to be extended. The Group’s production lines were under limited operation in February 2020 and shipments were significantly reduced. In terms of orders, domestic orders were deferred due to suspension of work by real estate developers, hence the Group gave priority to overseas orders. Fortunately, as the pandemic was gradually brought under control domestically in late February, various regions and industries began to resume work and production. The domestic orders recorded a significant increase in the second quarter and had reached its historical high for single monthly sales volume. Currently, both the production capacity and order volume have resumed their stability.

During the period under review, the Group continued to strive to participate in landmark construction projects and was approved to become the main supplier of aluminum profiles for the Beijing Winter Olympic Games arena, the Chengdu Tianfu International Airport, and the Xiong’an High-speed Railway Station, which had attested the high recognition by the market for the Group’s products quality.

For overseas sales, the Group continued to facilitate the sales of aluminum profiles to other countries such as Australia, Vietnam, New Zealand, Singapore and Malaysia, as well as making its first shipments to the United Kingdom. However, the acute pandemic situation has dampened the purchasing motives of overseas downstream companies and our overseas expansion pace was affected to a certain extent.

Although our business is full of challenges, however, the Group continues to invest in research and development. During the period under review, the Xingfa Research Institute was duly established by the Group and it is divided into three departments, namely the Mold R&D Department, Construction Aluminum Profiles R&D Department and Industrial Aluminum Profiles R&D Department. The Institute cooperates with academic institutions to conduct research on new applications in different fields, with the hope of providing new products with leading-edge technology and expecting to enhance the Group's competitiveness.

Revenue

For the six months ended 30 June 2020, the revenue and sales volume of the Group decreased by 8.6% and 6.8% to approximately RMB4,526.6 million and 258,830 tonnes respectively (1H19: RMB4,954.9 million and 277,654 tonnes respectively). Of which, the sales of construction aluminium profiles and industrial aluminium profiles accounted for 76.4% and 21.4% of the revenue respectively. The gross profit of the Group for the period decreased by 8.3% year-on-year to RMB576,257. The gross profit margin was 12.7%. During the period under review, the profit attributable to shareholders of the Company was RMB252.8 million, representing a year-on year increase of 6.8%.

Construction aluminium profiles

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

In the first half of 2020, the revenue of construction aluminium profiles decreased by 8.6% to approximately RMB3,457.2 million (1H19: RMB3,781.9 million), and sales volume dropped by 6.1% to approximately 195,312 tonnes (1H19: approximately 208,072 tonnes).

Industrial aluminium profiles

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

The revenue of industrial aluminium profiles in the first half of 2020 decreased by 9.5% to approximately RMB968.5 million (1H19: RMB1,070.6 million), and sales volumes decreased by 8.0% to approximately 61,931 tonnes (1H19: approximately 67,302 tonnes).

Prospect

Looking forward to the second half of 2020, external factors such as the COVID-19 pandemic and geopolitical tensions may bring potential instability to the Group's operation. However, as domestic economic recovery is progressing satisfactory and real estate market is recovering well, the Group has received ample orders and the domestic demand for aluminum profiles is expected to increase in the second half of the year. Given that the operation environment is still full of uncertainties, the Group will put stability as primary consideration in the second half of the year, control operation risks stringently, and focus on internal management reform and technology upgrade.

At the same time, the Group will continue to propel its dual-engine development direction, and while consolidating the construction aluminum profiles business, we will vigorously expand the industrial aluminum profiles business. The Group has formulated a blueprint for expanding our industrial aluminum profiles business, and it will continue to be committed in increasing the revenue derives from the sale of industrial aluminium profiles and deep-processing products in proportion to the total revenue in the next three to five years. The precision manufacturing base located in Sanshui Industrial Park, Guangdong Province is mainly engaged in the production of industrial aluminum profiles production. It is expected to commence its trial production in this year, and it will become an important base for industrial aluminum profiles.

The Group will continue to promote management reforms to improve operational efficiency. Since commencing the cooperation with Siemens last year, the Group is gradually transforming from its planning stage to usher in phased results in 2020. The Group will implement reforms in the production process in stages, by starting with the precision base that is about to be put into production to achieving all-one-one production and marketing integration and digitization in factories. Should the results look promising, the Group will apply this new production model to other factories to improve production processes and strengthen cost control, thereby enhancing the core competitiveness of the Group.

For overseas business, the COVID-19 pandemic outbreak has accelerated the Group's pace in overseas markets expansion. When China was facing the COVID-19 outbreak, domestic orders dropped significantly, but overseas orders still recorded strong growth, hence mitigated the Group's sales pressure. Therefore, the Group will continue to strengthen our overseas markets layout, and actively explore the viability of overseas investment to elevate the Group's development to a new level.

FINANCIAL REVIEW

Revenue

The revenue and sales volume of the Group for 1H20 were decreased by 8.6% and 6.8% year-on-year to approximately RMB4,526.6 million and 258,830 tonnes respectively (1H19: RMB4,954.9 million and 277,654 tonnes respectively). The decreases were attributable to the outbreak of the COVID-19 pandemic which had caused a significant drop in the domestic sales orders in the first quarter of 2020.

The sales volume of construction aluminium profiles for 1H20 decreased by 6.1% to 195,321 tonnes (1H19: 208,072 tonnes). Meanwhile, the sales volume of industrial profiles for 1H20 also decreased by 8.0% to 61,931 tonnes (1H19: 67,302 tonnes).

The following table sets forth the details of our revenue by category for 1H20 and 1H19:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Manufacturing and sale of aluminium profiles		
– Construction aluminium profiles	3,457,194	3,781,875
– Industrial aluminium profiles	968,494	1,070,592
	4,425,688	4,852,467
Sale of properties	6,968	16,778
Others (<i>Note</i>)	93,895	85,631
Total	4,526,551	4,954,876

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

Gross profit and gross profit margin

The gross profit of the Group for 1H20 decreased by 8.3% year-on-year to approximately RMB576.3 million (1H19: RMB628.6 million).

The overall gross profit margin for 1H20 of the Group remained stable at 12.7% (1H19: 12.7%), while the sales to production ratio increased slightly to 99.1% (1H19: 98.6%).

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

	Six months ended 30 June	
	2020	2019
Overall	12.7%	12.7%
Construction aluminium profiles	12.7%	12.8%
Industrial aluminium profiles	10.8%	10.0%

The gross profit ratio of construction aluminium profiles and industrial aluminium profiles for 1H20 as compared to 1H19 remained steady respectively.

Other income

The other income of the Group for 1H20 increased by 69.0% year-on-year to approximately RMB51.9 million (1H19: RMB30.7 million), which was mainly attributable to the increase in interest income and the increase in fair value of aluminium products future contracts for hedging purposes.

Distribution costs

The distribution costs of the Group for 1H20 increased by 28.0% to approximately RMB143.2 million (1H19: RMB111.9 million), which was 3.2 % of the revenue (1H19: 2.3%). During 1H20, more commission was paid to the outperformed sales distributors, thus the distribution costs increased as compared to that of 1H19.

Administrative expenses

The administrative expenses of the Group for 1H20 decreased slightly by 3.5% to approximately RMB182.1 million (1H19: RMB188.6 million), which was 4.0% of the revenue (1H19: 3.8%).

Profit attributable to shareholders of the Company and net profit margin

The profit attributable to shareholders of the Company for 1H20 increased by 6.8% to approximately RMB252.8 million (1H19: RMB236.7 million), whilst the net profit margin increased to 5.6% (1H19: 4.8%).

The Board believes that such increase in profit was primarily attributable to the significant increase in other income and the decrease in finance costs.

ANALYSIS OF FINANCIAL POSITION

Current and quick ratios

The following table sets out our Group's current and quick ratios as at 30 June 2020 and 31 December 2019:

	At 30 June 2020	At 31 December 2019
Current ratio (<i>Note i</i>)	1.23	1.19
Quick ratio (<i>Note ii</i>)	0.92	0.93

Note:

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

Both ratios remained steady as at 30 June 2020 as compared to that as at 31 December 2019.

Gearing ratio

The following table sets out our Group's gearing ratio as at 30 June 2020 and 31 December 2019:

	At 30 June 2020	At 31 December 2019
Gearing ratio (<i>Note</i>)	20.7%	21.9%

Note:

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

The gearing ratio remained steady as at 30 June 2020 as compared to that as at 31 December 2019.

Inventory turnover days

The following table sets out our Group's inventory turnover days during 1H20 and 1H19:

	Six months ended 30 June 2020	2019
Inventory turnover days (<i>Note</i>)	56	51

Note:

Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the periods divided by the total cost of sales during the periods multiplied by 182 days.

Inventories balance as at the respective periods ended 30 June 2020 and 2019 represents aluminium profiles segment including our raw materials, work in progress and the unsold finished goods and property under development for sale.

The outbreak of COVID-19 pandemic since early 2020 has caused delays of production and delivery of products in 1H20 of the Group, thus the inventory turnover days for 1H20 increased as compared to that of 1H19.

Debtors' turnover days

The following table sets out our Group's debtors' turnover days during 1H20 and 1H19:

	Six months ended 30 June	
	2020	2019
Debtors' turnover days (<i>Note</i>)	112	96

Note:

Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables (net of allowance for doubtful debts) for the periods divided by revenue during the periods multiplied by 182 days.

As affected by the COVID-19 pandemic, certain debtors' repayment schedules had been slowed down. In addition, the proportion of the accounts receivables with longer credit period increased in 1H20. As a result, debtors' turnover days increased for 1H20 as compared to that of 1H19.

Creditors' turnover days

The following table sets out our Group's creditors' turnover days during 1H20 and 1H19:

	Six months ended 30 June	
	2020	2019
Creditors' turnover days (<i>Note</i>)	94	85

Note:

Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the periods divided by the total cost of sales during the periods multiplied by 182 days.

As affected by the COVID-19 pandemic, certain creditor's repayment schedules had been slowed down in 1H20 as compared to that of 1H19.

Loans and borrowings

As at 30 June 2020, the Group's loans and borrowings amounted to approximately RMB1,602.7 million (31 December 2019: RMB1,698.4 million), among which amounted to approximately RMB883.5 million were at fixed interest rates.

Banking facilities and guarantee

As at 30 June 2020, the banking facilities of the Group amounted to approximately RMB6,909.0 million (31 December 2019: RMB7,690.4 million), of which approximately RMB1,812.1 million were utilized (31 December 2019: RMB2,599.1 million).

No banking facilities were guaranteed by related parties.

Capital structure

As at 30 June 2020, the Company had 418,000,000 ordinary shares of HK\$0.01 each in issue. No shares of the Company has been issued or repurchased during 1H20.

Financial instruments for hedging purposes

As at 30 June 2020, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those future contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of the future contracts but instead designates the future contract in its entirety in a hedging relationship.

CASH FLOW HIGHLIGHTS

The following table sets out our Group's cash flow highlights during 1H20 and 1H19:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	208,082	374,733
Acquisitions of property, plant and equipment	(231,929)	(237,819)
Payment for deposit of future contract	(80,000)	–
Interest paid	(49,688)	(84,046)
Net increase in bank borrowings	97,294	138,830
Dividends paid	(106,904)	(73,465)

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

As at 30 June 2020, the Group had cash and cash equivalents of RMB544.3 million (31 December 2019: 528.0 million), among which 3.3% was held in US dollars, 2.8% was held in HK dollars and the remaining balance was held in RMB.

PROPERTY DEVELOPMENT

“Xingfa Plaza”(興發大廈), a property project wholly-owned by the Group, is located at the northern side of Jihua Road and the western side of Changang Road, Chancheng District, Foshan City, Guangdong Province, the PRC. The land use rights of the property have been granted for a term of 40 years expiring on 19 May 2050 for commercial service, office, culture and entertainment uses. The property comprises a parcel of land with a site area of approximately 16,961.36 sq.m. and the gross floor area is approximately 123,527.29 sq.m.. As at 30 June 2020, around 40% of the saleable floor area have been delivered to the customers.

During 1H20, 5 units of Xingfa Plaza had been sold and delivered, The revenue recognized from such sale for 1H20 amounted to approximately RMB7.0 million (1H19: RMB16.8 million), with gross profit margin at 46.5% (1H19: 58.5%).

SUBSEQUENT EVENT

There was no subsequent event affecting the Group that had occurred since the end of 1H20.

HUMAN RESOURCES

As at 30 June 2020, our Group employed a total of approximately 8,210 full time employees in the PRC and Hong Kong which included management staff, technicians, salespersons and workers. In 1H20, our Group's total expenses on the remuneration of employees were approximately RMB345.9 million (1H19: approximately RMB337.8 million) represented approximately 7.6% (1H19: 6.8%) 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), housing fund, medical insurance, unemployment insurance and other relevant insurance (according to the PRC rules and regulations for PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. In-house and external training programmes are provided as and when required.

INTERIM DIVIDEND

The Directors do not propose the payment of interim dividend for 1H20 (1H19: Nil).

CORPORATE GOVERNANCE

In the opinion of the Directors, save as mentioned below, the Company had complied with all the code provisions of the Corporate Governance Code (“**Corporate Governance Code**”) as set out in Appendix 14 to the Listing Rules for 1H20.

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 1H20, the Board has held one full board meeting. The Company has deviated from this code provision as the Board has discussed the company matters through exchange of emails and informal meetings among the Directors and has obtained board consent through circulating written resolutions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“**Model Code**”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors’ securities transactions. After having made specific enquiry with all Directors, our Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code for 1H20.

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

REVIEW BY THE AUDIT COMMITTEE

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

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

The audit committee of the Board has met with the management and external auditors of the Company and has reviewed the consolidated results of our Group for 1H20.

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities for 1H20.

PUBLICATION OF 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This announcement is published on the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.xingfa.com), and the 2020 interim report of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

20 August 2020

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

Executive Directors:

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

Non-executive Directors:

Mr. ZUO Manlun
Mr. XIE Jingyun

Independent non-executive Directors:

Mr. CHEN Mo
Mr. HO Kwan Yiu
Mr. LAM Ying Hung, Andy
Mr. LIANG Shibin