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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 2020

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 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2020

	<i>Note</i>	Six months ended 30 June	
		2020	2019
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	4	1,950,969	1,948,913
Cost of sales		<u>(1,748,521)</u>	<u>(1,762,452)</u>
Gross profit		202,448	186,461
Other income		10,826	20,930
Distribution expenses		(19,104)	(22,813)
Administrative expenses		(102,473)	(107,667)
Other expenses	5	<u>(37,952)</u>	<u>(2,798)</u>
Profit from operations		53,745	74,113
Finance income		15,024	6,910
Finance costs		<u>(18,238)</u>	<u>(18,336)</u>
Net finance costs	6(a)	<u>(3,214)</u>	<u>(11,426)</u>

	<i>Note</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (unaudited)
Profit before taxation		50,531	62,687
Income tax	7	<u>(7,650)</u>	<u>(7,754)</u>
Profit for the period		<u>42,881</u>	<u>54,933</u>
Attributable to:			
Equity shareholders of the Company		42,797	54,496
Non-controlling interests		<u>84</u>	<u>437</u>
Profit for the period		<u>42,881</u>	<u>54,933</u>
Earnings per share			
– Basic (<i>RMB cents</i>)	8(a)	5.10	6.39
– Diluted (<i>RMB cents</i>)	8(b)	<u>5.10</u>	<u>6.39</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period	42,881	54,933
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>1,048</u>	<u>46</u>
Total comprehensive income for the period	<u>43,929</u>	<u>54,979</u>
Attributable to:		
Equity shareholders of the Company	43,845	54,542
Non-controlling interests	<u>84</u>	<u>437</u>
Total comprehensive income for the period	<u>43,929</u>	<u>54,979</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		At 30 June 2020 <i>RMB'000</i> (unaudited)	At 31 December 2019 <i>RMB'000</i> (audited)
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		836,663	885,206
Right-of-use assets		68,652	74,440
Intangible assets		1,183	1,382
Deposits for acquisition of property, plant and equipment		1,508	1,224
Deferred tax assets		25,664	33,625
Other non-current assets		7,490	7,490
		<u>941,160</u>	<u>1,003,367</u>
Current assets			
Inventories	9	687,329	697,284
Trade and other receivables	10	307,322	386,875
Derivative financial instruments		–	565
Structured bank deposits		–	20,118
Restricted bank deposits		293,240	221,490
Bank deposits with maturity over three months		165,000	60,000
Cash and cash equivalents		207,579	163,150
		<u>1,660,470</u>	<u>1,549,482</u>
Assets held for sale	11	30,411	–
		<u>1,690,881</u>	<u>1,549,482</u>

		At 30 June 2020 <i>RMB'000</i> (unaudited)	At 31 December 2019 <i>RMB'000</i> (audited)
	<i>Note</i>		
Current liabilities			
Trade and other payables	12	662,357	521,515
Interest-bearing borrowings	13	710,682	768,941
Derivative financial instruments		12,855	7,775
Lease liabilities		986	1,040
Income tax payable		4,239	19,369
		<u>1,391,119</u>	1,318,640
Liabilities held for sale	11	<u>161</u>	—
		<u>1,391,280</u>	1,318,640
Net current assets		<u>299,601</u>	230,842
Total assets less current liabilities		<u>1,240,761</u>	1,234,209
Non-current liabilities			
Interest-bearing borrowings	13	77,000	77,000
Lease liabilities		236	700
Deferred income		36,749	41,818
Deferred tax liabilities		1,796	1,846
		<u>115,781</u>	121,364
Net assets		<u>1,124,980</u>	1,112,845
Capital and reserves			
Share capital		73,676	77,417
Reserves		1,049,303	1,033,511
Total equity attributable to equity shareholders of the Company		1,122,979	1,110,928
Non-controlling interests		2,001	1,917
Total equity		<u>1,124,980</u>	1,112,845

NOTES TO THE UNAUDITED INTERIM FINANCIAL RESULTS

1 REPORTING ENTITY AND BACKGROUND INFORMATION

Xingye Alloy Materials Group Limited (the “**Company**”, formerly known as “Huan Yue Interactive Holdings Limited”) was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2007 under the Companies Law, 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 2020 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.

Pursuant to a special resolution passed by the shareholders of the Company on 19 June 2020, the issuance of a Certificate of Incorporation on Change of Name by the Registrar of Companies in the Cayman Islands on 19 June 2020 and the issuance of a Certificate of Registration of Alteration of Name of Registered Non-Hong Kong Company by the Registrar of Companies in Hong Kong on 14 July 2020, the English name of the Company was changed from “Huan Yue Interactive Holdings Limited” to “Xingye Alloy Materials Group Limited” and the dual foreign name in Chinese of the Company was changed from “歡悅互娛控股有限公司” to “興業合金材料集團有限公司”.

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 2019 annual financial statements, except for the assets held for sale accounting policy and changes in accounting policies that are expected to be reflected in the 2020 annual financial statements. Details of the assets held for sale accounting policy and changes in accounting policies are set out in note 3.

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

This Interim Financial Information contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 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 SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting policies

The IASB has issued following amendments to IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IFRS 3, *Definition of a Business*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions*

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 2020.

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

(b) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with Group's other accounting policies.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

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	
	2020	2019
	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	1,851,168	1,819,703
– Processing service fees	72,403	90,827
– Trading of raw materials	18,956	22,445
	1,942,527	1,932,975
Online games related:		
– Publishing and operating online games	7,392	15,476
– Others	1,050	462
	8,442	15,938
	1,950,969	1,948,913
Disaggregated by geographical location of customers:		
– Mainland China	1,771,832	1,694,241
– Taiwan, China	48,050	51,890
– Thailand	16,101	50,211
– Other locations	114,986	152,571
	1,950,969	1,948,913

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in notes 4(b).

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 2020 and 2019.

(b) Segment reporting

The Group manages its businesses by service lines. In a manner consistent with the way in which 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 two reportable segments. No operating segments have been aggregated to form the following reportable segments.

Copper products – this segment carries on the business of manufacturing and selling of high precision copper plates and strips products, providing processing services of copper plates and strips products and trading of raw materials.

Online games – this segment carries on the business of publishing and operating online games.

(i) *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, assets and liabilities attributable to each reportable segment on the following basis:

Segment assets include all assets, with the exception of unallocated corporate assets. Segment liabilities include all liabilities, with the exception of unallocated corporate liabilities.

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. The measure used for reporting segment profit is profit before taxation. In addition to receiving segment information concerning profit before taxation, management is provided with segment information concerning revenue, interest income and expenses from cash balances and borrowings managed directly by segments, depreciation and amortisation and impairment losses. Changes in fair values of contingent consideration receivables and contingent consideration payables are not included in the measure of the segment profit that is used by the most senior executive management for assessment of segment performance.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 are set out below.

Six months ended 30 June	Copper products		Online games		Total	
	2020	2019	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Disaggregated by timing of revenue recognition						
Point in time	1,942,527	1,932,975	–	–	1,942,527	1,932,975
Overtime	–	–	8,442	15,938	8,442	15,938
Revenue from external customers	1,942,527	1,932,975	8,442	15,938	1,950,969	1,948,913
Inter-segment revenue	227	–	–	–	227	–
Reportable segment revenue	1,942,754	1,932,975	8,442	15,938	1,951,196	1,948,913
Reportable segment profit/(loss) (profit/(loss) before taxation)	44,242	51,878	(1,940)	8,644	42,302	60,522
Interest income from bank deposits	6,100	3,272	42	356	6,142	3,628
Net interest expenses	(15,612)	(17,577)	(34)	(53)	(15,646)	(17,630)
Depreciation and amortisation	(50,657)	(53,646)	(699)	(917)	(51,356)	(54,563)
As at 30 June/31 December						
Reportable segment assets	2,598,283	2,459,845	59,376	67,810	2,657,659	2,527,655
Reportable segment liabilities	(1,517,072)	(1,418,538)	(15,607)	(19,410)	(1,532,679)	(1,437,948)

(ii) *Reconciliations of reportable segment revenue and profit before taxation*

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Revenue		
Reportable segment revenues	1,951,196	1,948,913
Elimination of inter-segment revenue	(227)	—
Consolidated revenue (<i>note 4(a)</i>)	<u>1,950,969</u>	<u>1,948,913</u>
Profit before taxation		
Reportable segment profit	42,302	60,522
Other gains or losses:		
– Change in fair values of contingent consideration receivables and contingent consideration payables	8,229	2,165
Consolidated profit before taxation	<u>50,531</u>	<u>62,687</u>

(iii) *Reconciliations of reportable segment assets and liabilities*

	At 30 June	At 31 December
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Assets		
Reportable segment assets	2,657,659	2,527,655
Elimination of inter-segment receivables	(25,618)	(1,570)
Unallocated corporate assets	—	26,764
Consolidated total assets	<u>2,632,041</u>	<u>2,552,849</u>
Liabilities		
Reportable segment liabilities	1,532,679	1,437,948
Elimination of inter-segment payables	(25,618)	(1,570)
Unallocated corporate liabilities	—	3,626
Consolidated total liabilities	<u>1,507,061</u>	<u>1,440,004</u>

5 OTHER EXPENSES

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Credit losses allowance on trade and other receivables	2,379	2,542
Impairment losses on property, plant and equipment	1,248	–
Losses on disposal of property, plant and equipment	223	200
Net losses on derivative financial instruments	33,935	–
Others	167	56
	<u>37,952</u>	<u>2,798</u>

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Interest income on bank deposits	6,142	3,628
Change in fair values of contingent consideration receivables and contingent consideration payables	8,229	2,165
Gains from structured bank deposits	653	–
Net foreign exchange gains	–	1,117
Finance income	<u>15,024</u>	<u>6,910</u>
Interest expenses on interest-bearing borrowings	(15,611)	(18,523)
Interest on lease liabilities	(35)	(59)
Less: interest expenses capitalised*	–	952
Net interest expenses recognised in profit or loss	(15,646)	(17,630)
Net foreign exchange losses	(2,592)	–
Losses from foreign exchange forward contracts	–	(706)
Finance costs	<u>(18,238)</u>	<u>(18,336)</u>
Net finance costs	<u>(3,214)</u>	<u>(11,426)</u>

* The borrowing costs were not capitalised during the six months ended 30 June 2020 (six months ended 30 June 2019: 2.85%-4.99% per annum).

(b) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Cost of inventories *	1,746,069	1,758,936
Research and development expenses (included in administrative expenses)	59,395	61,860
Depreciation		
– Property, plant and equipment	49,850	53,249
– Right-of-use assets	1,307	894
Impairment losses on		
– Trade and other receivables	2,379	2,542
– Property, plant and equipment	1,248	–
Amortisation		
– Intangible assets	199	420
Government grants	8,500	9,261

* Cost of inventories includes depreciation of RMB32,122,000 (six months ended 30 June 2019: RMB31,290,000), which is also included in the total amount of depreciation expenses disclosed separately below.

7 INCOME TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax		
Provision for the year	8,212	15,464
Over-provision in respect of prior year	(8,473)	(8,847)
	(261)	6,617
Deferred tax		
Origination and reversal of temporary differences	7,911	1,137
	7,650	7,754

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 2020 was 15% (six months ended 30 June 2019: 12%). The increase in the effective tax rate was mainly due to the increase of tax losses which are not expected to be utilised in the future years and therefore not recognised as deferred tax assets.

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 RMB42,797,000 (six months ended 30 June 2019: RMB54,496,000) and the weighted average number of 838,887,843 ordinary shares (six months ended 30 June 2019: 852,653,449 ordinary 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 RMB42,797,000 (six months ended 30 June 2019: RMB54,496,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 839,154,838 ordinary shares (six months ended 30 June 2019: 852,653,449 ordinary shares).

9 INVENTORIES

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Raw materials	79,180	72,656
Work in progress	446,793	480,754
Finished goods	161,283	143,341
Others	73	533
	<u>687,329</u>	<u>697,284</u>

Provisions of RMB3,033,000 (31 December 2019: RMB27,627,000) were made against those inventories with net realisable value lower than carrying value as at 30 June 2020. Except for the above, none of the inventories as at 30 June 2020 were carried at net realisable value (2019: Nil).

10 TRADE AND OTHER RECEIVABLES

		At 30 June 2020 <i>RMB'000</i> (unaudited)	31 December 2019 <i>RMB'000</i> (audited)
	<i>Note</i>		
Trade and bills receivable, net of loss allowance		261,006	326,451
Deposits for metal future contracts		14,778	2,839
Other debtors, net of loss allowance		<u>7,733</u>	<u>8,414</u>
Financial assets measured at amortised cost		283,517	337,704
VAT recoverable		12,302	11,962
Prepayments		11,503	10,445
Contingent consideration receivables	12(i)	<u>–</u>	<u>26,764</u>
		<u>307,322</u>	<u>386,875</u>

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

As at 30 June 2020, 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 RMB30,387,000 (31 December 2019: RMB45,178,000). 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 continued 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 2020 <i>RMB'000</i> (unaudited)	At 31 December 2019 <i>RMB'000</i> (audited)
Within 3 months	236,301	306,160
Over 3 months but less than 6 months	17,897	18,589
Over 6 months but less than 1 year	5,999	1,393
Over 1 year	<u>809</u>	<u>309</u>
	<u>261,006</u>	<u>326,451</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 2020, the Group's bills receivables with aggregate carrying value of RMB80,000,000 (31 December 2019: RMB107,070,000) were pledged to banks for issuance of bank acceptance bills.

11 DISPOSAL GROUP HELD FOR SALE

In June 2020, management committed to a plan to sell the Company's entire 100% shareholding in one of its subsidiaries (the "**Subsidiary**"). Accordingly, all assets and liabilities of the Subsidiary are presented as a disposal group held for sale. Efforts to sell the disposal group have started and a sale was effectively completed by July 2020.

Assets and liabilities of disposal group held for sale

At 30 June 2020, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities:

	At 30 June 2020 RMB'000 (unaudited)
Assets	
Property, plant and equipment	18,918
Right-of-use assets	4,481
Inventories	460
Trade and other receivables	6,204
Cash and cash equivalents	348
Total assets	30,411
Liabilities	
Trade and other payables	(161)
Total liabilities	(161)
Net assets	30,250

12 TRADE AND OTHER PAYABLES

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Trade and bills payable	558,890	394,397
Staff benefits payable	26,090	38,973
Payables for purchase of property, plant and equipment	23,894	33,273
Accrued expenses and others	17,501	24,388
Financial liabilities measured at amortised cost	626,375	491,031
Contract liabilities	35,982	26,858
Contingent consideration payables (i)	—	3,626
	662,357	521,515

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 issuing date, is as follows:

	At 30 June 2020 RMB'000 (unaudited)	At 31 December 2019 RMB'000 (audited)
Within 3 months	386,242	382,475
Over 3 months but within 6 months	144,425	7,228
Over 6 months but within 1 year	23,983	616
Over 1 year	4,240	4,078
	558,890	394,397

- (i) In connection with the acquisition of Funnytime Limited (“**Funnytime**”) and its subsidiaries (collectively, the “**Target Group**”), contingent consideration is settled in the form of cash and newly issued ordinary shares of the Company depending on achievement of the Target Group’s adjusted net profit for each performance year from 2016 to 2018. Pursuant to the Sale and Purchase Agreement (the “**SPA**”), given that the adjusted net profit of Funnytime for the period from 1 January 2016 to 31 December 2018 is less than RMB70,000,000 (as defined in the SPA), Mobilefun Limited (“**Mobilefun**”) shall pay to the Company the adjustment amount (the “**Adjustment Amount**”) of cash consideration of HKD40,135,567 (“**contingent receivables**”) and the Company shall issue to Mobilefun 6,424,734 shares (“**contingent payables**”) in accordance with the price adjustment mechanism stipulated in the SPA.

On 23 January 2020, the Company, Xingye Investment Holdings Limited (a wholly-owned subsidiary of the Company) (“**Xingye**”), Mobilefun (the “**Guarantors**”) entered into a settlement deed (the “**Settlement Deed**”) with respect to the settlement of the contingent consideration receivables and contingent consideration payables, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue 6,424,734 shares at the cancellation price of HKD0.80 per share; (ii) the Company shall buy back and cancel 41,000,000 shares held by Mobilefun at the buy-back price of HKD0.80 per share (the “**Share Buy-back**”); and (iii) Mobilefun shall settle the residual repayment of HKD2,195,779.80. Pursuant to a special resolution passed at the Extraordinary General Meeting of the Company, the Settlement Deed was approved on 9 March 2020.

On 16 April 2020, the Company completed the share buy-back transaction of 41,000,000 shares from Mobilefun and those 41,000,000 shares were cancelled by the Company on 17 April 2020. As at 30 June 2020, the remaining cash compensation of HKD2,195,779.80 had not been settled.

Details of the Share Buy-back are set out in the Company’s announcements dated 23 January 2020, 9 March 2020 and 16 April 2020 and the Company’s circular dated 13 February 2020.

Gain on settlement of contingent receivables and payables of approximately RMB8.2 million was recognised in “Change in fair value of contingent consideration receivables and contingent consideration payables” (note 6(a)) for the six months ended 30 June 2020.

13 INTEREST-BEARING BORROWINGS

At 30 June 2020, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	At 30 June 2020 <i>RMB’000</i> (unaudited)	At 31 December 2019 <i>RMB’000</i> (audited)
Current		
Short-term secured bank loans	372,271	447,751
Unsecured bank loans	41,378	36,739
Bank advances under discounted bills	297,033	238,951
Current portion of non-current secured bank loans	—	45,500
	710,682	768,941
Non-current		
Secured bank loans	77,000	77,000
	787,682	845,941

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

	At 30 June 2020 <i>RMB'000</i> (unaudited)	At 31 December 2019 <i>RMB'000</i> (audited)
Within 1 year	710,682	768,941
Over 1 year but less than 2 years	77,000	77,000
	<u>787,682</u>	<u>845,941</u>

- (ii) The Group's interest-bearing borrowings in the amount of RMB308,000,000 (31 December 2019: RMB322,500,000) 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 2020, none of these covenants related to drawn down facilities were breached.
- (iii) The secured bank loans as at 30 June 2020 bore interest at rates ranging from 0.93% to 4.75% (31 December 2019: 2.27% to 4.99%) per annum and were pledged by the following assets:

	At 30 June 2020 <i>RMB'000</i> (unaudited)	At 31 December 2019 <i>RMB'000</i> (audited)
Carrying amounts of assets:		
Inventories	303,000	303,000
Property, plant and equipment	335,692	358,135
Right-of-use assets	7,012	7,119
Guarantee deposits for bank borrowings	9,505	65,351
	<u>655,209</u>	<u>733,605</u>

- (iv) Unsecured bank loans as at 30 June 2020 bore interest at rates ranging from 1.27% to 1.33% (31 December 2019: 2.79% to 4.35%) per annum.

14 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 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 2020, the Trustee had purchased 9,477,000 shares (31 December 2019: 9,477,000 shares) of the Company at a total cost (including related transaction costs) of HKD7,967,000 (equivalent to RMB6,884,000) (31 December 2019: HKD7,967,000 (equivalent to RMB6,884,000)).

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 the Company on 13 December 2017, 10,060,000 ordinary shares held under the Share Award Scheme were granted to 9 directors (including 3 directors who resigned later) 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 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 have been postponed for one year to 13 December 2019 and 13 December 2020 (the “**Postponed Vesting Dates**”), respectively.

According to the Resolution of the Board 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 above tranche 2 and tranche 3.

The modification was not beneficial to the grantees, therefore, there was no impact on the fair value cost of the awarded shares.

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

	2020			2019		
	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB'000</i>	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB'000</i>
At 1 January	0.81	3,497,000	2,523	0.87	2,708,000	2,164
Shares purchased during the period/year	–	–	–	0.53	789,000	359
Shares vested during the period/year	–	–	–	–	–	–
At 30 June/31 December	<u>0.81</u>	<u>3,497,000</u>	<u>2,523</u>	<u>0.81</u>	<u>3,497,000</u>	<u>2,523</u>

15 DIVIDENDS

During the six months period ended 30 June 2020, 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 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

COPPER PROCESSING BUSINESS

Market and Industry Review

According to data released by the major international economic organisations such as the World Bank, the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF), respectively, it is certain that the world economy of 2020 is falling into the largest recession since the “Great Depression”, and the global GDP growth rate is expected to be -5.2%, -6% and -4.9% according to the World Bank, the OECD and the IMF, respectively. The IMF predicted that the global economy would contract by 4.9% in 2020 as compared with that previously estimated of 3%, the U.S. economy would contract by 8.0%, the Eurozone economy would contract by 10.2%, while the Chinese economy would increase by 1.0%, which is the only country that will grow among the world’s major economies. According to the latest information from the World Health Organization (WHO), it will take 12 to 18 months for the world to successfully develop vaccines for COVID-19, even at an “unprecedented speed”. Thus, it may be difficult to fully contain the global spread of the pandemic by the end of this year, but it is less likely for countries around the world to lock down their economies again. Facing the sudden outbreak of the COVID-19 pandemic, China has taken effective response measures, making it possible for the resumption of work and production and restore the economic and social stability in a short period of time.

During the first half of 2020, the copper price first showed a trend of falling, which was then followed by a rise, with the main fluctuation ranging from USD4,300 to USD6,400 per ton. London Metal Exchange (LME) copper prices temporarily rose to the highest point of USD6,343 per ton at the beginning of the year, followed by a sharp drop in copper prices to the lowest point of the year of USD4,371 per ton on 19 March due to the worldwide outbreak of the COVID-19 pandemic, and then the copper prices began to climb steadily.

In the first half of 2020, the average LME monthly and three month copper future prices per ton were approximately USD5,490 and USD5,512, respectively, down by approximately 11.0% and 10.7%, respectively, as compared with the same period of last year. The copper market in China fluctuated in a similar trend with the international market, as evidenced by the fact that the main fluctuation range of the major copper contracts in Shanghai Futures Exchange was between approximately RMB35,000 per ton and approximately RMB50,000 per ton, with the lowest price at RMB35,300 per ton in March. The downward adjustment in domestic copper prices was weaker than that of LME, mainly due to the depreciation of the RMB in the first half of 2020, also due to the effect of China taking the lead in domestic demand recovery.

For the first half of 2020, due to the Spring Festival holiday and the impact of the COVID-19 pandemic in China, the copper market demand fell sharply in the first quarter, and copper prices continued to decrease as the market panic spread rapidly. In late March 2020, the Federal Reserve of the United States released a significant amount of liquidity, and other central banks around the world followed suit. Copper prices gradually stopped falling and stabilised accordingly. During the second quarter of 2020, China took the lead in the rapid recovery of copper market demand, while South America and Africa suffered from severe pandemic, concerns over the supply shortage of overseas copper concentrate intensified, and the supply of scrap copper also tended to be tight. In addition, the sustained quantitative easing policy globally drove copper prices to rise sharply.

Business Review

At the beginning of 2020, the sudden outbreak of the COVID-19 pandemic brought unprecedented challenges to China. However, with the decisive measures of the Chinese government and the concerted efforts of the people across the country, the pandemic has been effectively contained. China's economy began to recover gradually from the middle of February. The Group became one of the first companies to resume production in Hangzhou Bay New Zone of Zhejiang Province. During the period when the pandemic was severe in 2020, downstream companies in the copper processing industry were running low on production capacity, resulting in a decline in orders and difficulties in logistics, causing a certain impact on the Group's product delivery, raw material supply, and import and export trade. The Group's production capacity basically returned to the pre-pandemic level in March 2020. At the same time, due to the outbreak of the pandemic abroad, the export volume of the Group's copper processed products decreased significantly as compared with the same period last year. However, certain domestic companies that previously purchased high-end products from international competitors turned to seek domestic alternative products, which provided the Group chances to enter their supplier systems.

For the first half of 2020, the Group's copper plates and strips realised a total production output of 57,379 tons and total sales volume of 56,938 tons. In the first half of 2020, sales revenue of the Group's copper plates and strips business achieved RMB1,942.5 million, representing a slight increase of 0.5% as compared to that of the corresponding period of 2019, among which, revenue from the sale of copper products amounted to RMB1,851.1 million, revenue from provision of processing services amounted to RMB72.4 million and revenue from trading amounted to RMB19.0 million, representing an increase of 1.7%, a decrease of 20.3% and a decrease of 15.6% as compared to the corresponding period of last year, respectively. In the first half of the year, the copper business realised an operating profit before taxation (profit before taxation excluding the change in fair value of contingent consideration receivables and payables) of RMB44.2 million, which decreased by 14.8% as compared to that of the corresponding period of last year, mainly due to the net effect of the following factors: 1) the reverse of impairment of inventory of RMB24.6 million; 2) the net loss from derivative financial instruments of RMB34.0 million; and 3) the Group had less distribution expenses and administrative expenses by approximately RMB11.5 million as compared to the same period of last year.

Business Development

In order to better reflect the current status of the Group's business development and provide the Company with a more appropriate corporate identification and image, the Board of Directors proposed to change the Company's name from "Huan Yue Interactive Holdings Limited" to "Xingye Alloy Materials Group Limited" on 16 April 2020. A special resolution approving the change of company name was duly passed by the shareholders on 19 June 2020. Details of the change of company name are set out in the Company's announcements dated 16 April 2020, 23 June 2020 and 17 July 2020.

In the first half of 2020, the Group embraced the working guidelines of "expansion and innovation, quality stabilisation and cost reduction, improvement and development", to promote business development in the following aspects:

Expansion and planning: in respect of market expansion, the Group focused on product application, actively promoted market development in electronics, integrated circuits, automotive electronics, rail transit, military industry and other fields, and enhanced policy support for marketing personnel to develop new customers. In respect of procurement and expansion of renewable raw materials, the Group made breakthroughs in certain aspects such as place of origin, variety and channels, so as to minimise procurement costs and improve profitability, while ensuring the supply of goods.

Innovation mainly focused on the research and development of new products, technological transformation and process innovation. New product development is targeted at products with great market application potential, high added value and broad industrialisation prospects. On the other hand, the Group continued to deepen cooperation with customers, scientific research institutes, and international leading materials research institutions to accelerate the launch and industrialisation of new products.

In respect of technological transformation, the Group focused on projects involving cleaners production (safety, environmental protection, energy saving), quality improvements, cost reduction and efficiency improvements, formulated project management methods and special assessment methods, and actively promoted the construction of factory buildings on newly acquired land at the same time.

The Group focused on the stabilisation of product quality and aimed at meeting the needs of customers to refine the product processing route and control standards.

In the first half of 2020, management of the Group targeted refined, streamlined and systematic transformation by implementing a series of management improvements in ten major aspects including image reshaping, safety and environmental management, production management, sales management, procurement management, equipment management, human resource management, compensation and performance management, financial management and information management, and formulating a detailed implementation plan for each work.

Outlook

Looking forward to the second half of the year, China's economy is expected to recover further. However, there is still great uncertainty in the international political and economic environment. Under the leadership of the Board of Directors, the Group is determined to face difficulties, overcome obstacles, actively respond to adverse external conditions, focus on production, ensure quality, and reassure and comfort our staff. The Group believes that it will be able to successfully overcome the impact of the pandemic and continue to maintain its industry leading position.

ONLINE GAMING BUSINESS

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 RMB8.4 million and a net loss of RMB4.6 million for the six months ended 30 June 2020, compared with total revenue of RMB15.9 million and a net profit of RMB10.0 million for the same period of 2019. The decrease in revenue and the net losses incurred are due to the following reasons:

- 1) Revenue from existing games shrank, as a result, both revenue and gross margin dropped significantly;
- 2) Domestic gaming companies received less government subsidies for the first half of 2020 as compared with the same period of 2019;

According to the sale and purchase agreement (the “**SPA**”), Funnytime shall achieve performance targets of net profit (after adjustments for pre-agreed items as stipulated in the SPA) of RMB18,000,000, RMB22,000,000 and RMB30,000,000 for the years ended 31 December 2016, 31 December 2017 and 31 December 2018 (collectively as the “**Performance Undertaking Period**”), respectively, and the total anticipated net profit shall be RMB70,000,000. Funnytime's adjusted net profit fulfilled its performance targets for year 2016 and 2017, but did not achieve the performance target for year 2018. The total adjusted net profit for the Performance Undertaking Period is RMB45,780,262, which is less than the total anticipated net income of RMB70,000,000 by RMB24,219,738. In April 2017 and April 2018, 19,996,667 and 24,445,556 consideration shares were allotted and issued to Mobilefun Limited (the “**Vendor**” and “**Mobilefun**”) respectively. In August 2016, February 2017 and March 2017, the Company paid HKD95,922,191.61, HKD16,740,000.00 and HKD1,860,000.00, a total amount of HKD114,522,191.61 (excluding the transaction costs) to the Vendor as cash consideration.

According to the SPA, the Vendor is subject to consideration adjustments, whereby the Vendor had to repay the Company cash in the amount of HKD40,135,567, and the remaining number of consideration shares issuable to the Vendor had been adjusted to 6,424,734 shares. The details of the consideration adjustments mechanism can be referred to in the announcement of the Company dated 21 June 2016. The guarantors (the “**Guarantors**”) of the Vendor under the SPA are Mr. Ren Hao and Mr. Yang Jiong. Mr. Tong Xin was relieved in July 2018 from acting as one of the guarantors after his disposal of all his interest in the Vendor to Mr. Ren Hao. The Board of Directors was of the view that such change of guarantor would not have any material adverse impact to the Group as Mr. Ren Hao and Mr. Yang Jiong would continue to remain as guarantors to the Vendor.

On 23 January 2020, the Company, Xingye, the Mobilefun, and the Guarantors entered into the Settlement Deed with respect to the settlement of the repayment amount owed by Mobilefun to Xingye, pursuant to which: (i) the Company shall cancel the issuance of, and be relieved from the obligation to issue, the unissued shares at the cancellation price of HKD0.80 per share of the Company; (ii) the Share Buy-back; and (iii) Mobilefun shall repay the residual repayment amount (i.e. HKD2,195,779.80) in cash to the Company.

The special resolution approving the Settlement Deed and the transactions contemplated thereunder (including but not limited to the Share Buy-back) was duly passed by the independent shareholders of the Company at the extraordinary general meeting held on 9 March 2020. The Company further announced that all conditions under the Settlement Deed had been fulfilled and completion of Share Buy-back took place on 16 April 2020. The Sale Shares (i.e. 41,000,000 shares of the Company) had been cancelled by the Company on 17 April 2020. As at the date of this announcement, the residual repayment amount of HKD2,195,779.80 was still outstanding.

Market and Industry Review

According to the “China’s Game Industry Reports from January to June 2020”, during the period from January to June 2020, the actual sales revenue of China’s game market reached RMB139.5 billion, a year-on-year increase of 22.3%. In particular, actual sales revenue growth rate of the mobile game market increased significantly, with a year-on-year increase of 35.8%, with actual sales revenue reaching RMB104.7 billion. Mobile games are still the main driving force for the growth of the entire gaming industry. The actual sales revenue of the web game market amounted to RMB4.0 billion, with a year-on-year decrease of 21.4%, which has decreased for five consecutive years, showing that the market has contracted significantly. In the first half of 2020, China’s game market overcame the impact of the COVID-19 pandemic and entered a new stage of industrial upgrading, technological updating and content innovation while continuously scaling up.

Business Development

Operation Center

Although the entire game industry is in a difficult period due to the restrictions on the issuance of commercial licences of online games by the regulatory authorities, the decline in overall user base and difficulty in getting good products, the Group's online gaming business was able to use its competitive advantage in operating traditional web games and H5 mobile mini games to maintain stable development.

In addition to traditional web games, the self-developed product “Zhe Jiu Shi Xiu Xian” (《這就是修仙》) launched on WeChat and QQ mini programs has expanded to several channels for online operations and achieved relatively stable performance in terms of data and revenue. Meanwhile, the Group has tried to launch the product in overseas markets. With its unique free-to-play, casual and interactive features, coupled with a new business model of video advertising revenue, it has been well received by the industry and users.

Research and Development Center

In the first half of 2020, based on the experience in H5 product research and development in the previous years and research on the current web game market, the research and development center decided to establish a H5 web game project. The gameplay of the project is more like that of traditional role-playing games, but novel activities and a new core building system have been added. The project is expected to be completed by the end of 2020.

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded total sales revenue of RMB1,950.9 million in the reporting period, which increased by 0.1% as compared with that of the corresponding period of last year.

The Group's copper business achieved total revenue of RMB1,942.5 million for the six months ended 30 June 2020, representing a slight increase of 0.5% compared to RMB1,933.0 million of the corresponding period in 2019. Revenue generated from the sales of high precision copper plates and strips, provision of processing services and trading of raw materials amounted to RMB1,851.1 million, RMB72.4 million and RMB19.0 million respectively (for the six months ended 30 June 2019: RMB1,819.7 million, RMB90.8 million and RMB22.5 million respectively). For the six months ended 30 June 2020, 95.3%, 3.7% and 1.0% of total revenue was 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 2019: 94.1%, 4.7% and 1.2% respectively). Sales volume of high precision copper plates and strips, provision of processing services and trading of raw material were 43,042 tons, 13,896 tons and 960 tons respectively, making 74.3%, 24.0% and 1.7% of the total.

The Group's online gaming business achieved revenue of RMB8.4 million for the six months ended 30 June 2020, representing 0.4% of the total revenue (for the six months ended 30 June 2019: RMB15.9 million).

The overall gross margin of the Group's copper business for the period increased to 10.1% from 9.0% of the corresponding period in 2019, which was mainly due to reversal of impairment of inventory in the amount of RMB24.6 million.

Other income

During the six months ended 30 June 2020, the Group's other income amounted to RMB10.8 million in total, representing a decrease of 48.3% compared to RMB20.9 million of the corresponding period of last year, which was mainly because the Group had net gains from derivative financial instruments by RMB11.2 million in 2019.

Other expenses

For the six months ended 30 June 2020, the Group recorded RMB38.0 million in other expenses, while recording other expenses of RMB2.8 million for the corresponding period of last year. Such increase was mainly due to the net loss on derivative financial instruments of RMB33.9 million in 2020.

Distribution expenses

For the six months ended 30 June 2020, the ratio of distribution expenses to revenue decreased to 1.0% as compared to 1.2% of the corresponding period of last year. This was mainly due to the decrease in insurance fee and service fee.

Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses decreased by 4.8% to RMB102.5 million from RMB107.7 million in the corresponding period of last year, which was attributable to a decrease in personnel cost and research and development expenses.

Net finance costs

The Group's net finance costs for the six months ended 30 June 2020 amounted to RMB3.2 million, representing a decrease of RMB8.2 million compared to that of RMB11.4 million of the corresponding period of last year, which was mainly due to an increase of RMB6.1 million on change in fair values of contingent consideration receivables and contingent consideration payables.

Income tax

For the six months ended 30 June 2020, the Group's income tax expenses was RMB7.7 million (six months ended 30 June 2019: RMB7.8 million). The Group's consolidated effective tax rate for the six months ended 30 June 2020 was 15% (six months ended 30 June 2019: 12%). The increase in the effective tax rate was mainly due to the movement in deferred tax.

Profit attributable to the shareholders of the Company

The profit attributable to shareholders of the Company for the six months ended 30 June 2020 amounted to RMB42.8 million, representing a decrease of RMB11.7 million compared to that of RMB54.5 million of the corresponding period of last year.

Liquidity financial resources and capital structure

As at 30 June 2020, the Group recorded net current assets of RMB299.6 million, which was primarily because the Group had more bank deposits with maturity over three months.

As a percentage of total interest-bearing borrowings, short-term interest-bearing borrowings represented 90.2% as at 30 June 2020. 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 cash from operating activities, has good credit standing and relationships with principal lending banks and possesses available undrawn banking facilities of RMB799.0 million that will not expire within 12 months from 30 June 2020 (including long term loan facilities amounting to RMB65.0 million effective until 2023) and cash at banks of RMB665.8 million (comprised of restricted bank deposits of RMB293.2 million, bank deposits with maturity over three months of RMB165.0 million and cash and cash equivalents of RMB207.6 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board of Directors believes that the Group can roll over the existing short-term bank borrowings upon maturity in the coming year. The Board of Directors 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 2020, the Group had outstanding bank loans and other borrowings of approximately RMB710.7 million, which shall be repaid within 1 year. As at 30 June 2020, 57.0% of the Group's debts was on a secured basis.

The gearing ratio as at 30 June 2020 was 34.1% (31 December 2019: 38.1%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and lease liabilities as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

Charge on assets

As at 30 June 2020, the Group pledged assets with an aggregate carrying value of RMB655.2 million (31 December 2019: RMB733.6 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2020, the Group has invested approximately RMB31.1 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 2020, future capital expenditures, for which the Group had contracted but not provided for, amounted to RMB604.0 million, which is mainly for plant construction and capacity expansion of the Group's copper processing business.

Contingent liabilities

As at 30 June 2020, 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 according to market price, which might fluctuate and were beyond the Group's control. Therefore, fluctuations in the prices of raw materials may have an adverse effect on the results of the Group's operations.

The Group uses its copper futures contracts in Shanghai Futures Exchange and London Metal Exchange to hedge against fluctuations in copper price. The Group recorded a loss on futures contracts of approximately RMB33.9 million for the six months ended 30 June 2020, while recording a gain of approximately RMB11.2 million in the corresponding period of last year.

Interest rate risk

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

Foreign exchange risk

The Group's export sales and certain parts of the purchase of raw materials were denominated in foreign currencies, primarily U.S. dollars. Therefore, fluctuations in the exchange rate may have an impact on the Group's operating results. The Group has not entered into any foreign exchange contracts to hedge against foreign exchange rate risk as at 30 June 2020. For the reporting period, the Group had recorded a net foreign exchange loss of RMB2.6 million, while recording a net gain of RMB1.1 million for the corresponding period of 2019.

EMPLOYEES

As at 30 June 2020, the total number of the Group's employees was 1,358 (31 December 2019: 1,334). Remuneration policies are reviewed periodically to ensure that the Group is offering competitive employment packages to employees. The employees' benefits include salaries, pensions, medical insurance scheme and other applicable social insurance. Promotion and salary increments are assessed in accordance with performance. The Group's business growth depends on its employees' skills and contributions. The Group believes in the important position of human resources in a highly competitive industry and has devoted resources for training its employees. Also, share options may be granted and shares may be awarded to eligible employees of the Group respectively in accordance with the terms of the share option scheme adopted by the Company and share award scheme adopted by the Board of Directors. The Group has established an annual training program for employees so that the new employees can master the basic skills required to perform their duties, and existing employees can enhance or upgrade their skills.

SHARE OPTION SCHEME AND SHARE AWARD SCHEME

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

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

The principal terms of the 2016 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2019.

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

The Board of Directors also adopted a share award scheme on 18 April 2016 (the “**Share Award Scheme**”). Details of the Share Award Scheme are set out in note 14 of the notes to the unaudited interim financial results in this announcement.

AUDIT COMMITTEE

The audit committee of the Board of Directors 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 Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the period under review.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board of Directors 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 2020.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Completion of the Share Buy-back took place on 16 April 2020 and the 41,000,000 shares of the Company were cancelled by the Company on 17 April 2020. The aggregate consideration (before expenses) for the Share Buy-back was HKD32.8 million. Details of the Share Buy-back are set out in the Company’s announcements dated 23 January 2020, 9 March 2020 and 16 April 2020 and the Company’s circular dated 13 February 2020. Except for the Share Buy-back, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company in the six months ended 30 June 2020.

INTERIM DIVIDEND

The Board of Directors does not declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

PUBLICATION OF 2020 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 2020 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, 28 August 2020

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.