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XINGFA ALUMINIUM HOLDINGS LIMITED

興發鋁業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 98)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

FINANCIAL HIGHLIGHTS

1. Revenue increased by 29.8% to approximately RMB15,432.9 million (2020: RMB11,886.9 million).
2. Sales volume rose by 5.1% to 685,006 tonnes (2020: 651,721 tonnes).
3. Gross profit increased by 11.2% to approximately RMB1,811.8 million (2020: RMB1,629.4 million).
4. Profit attributable to Shareholders for the Year increased by 16.0% to approximately RMB887.8 million (2020: RMB765.4 million).
5. Earnings per share were RMB2.12 (2020: RMB1.83).
6. The Board recommended the payment of a final dividend of HKD0.80 per ordinary share for the year ended 31 December 2021 (2020: HKD0.36).

RESULTS

The board (“**Board**”) of directors (“**Directors**”) of Xingfa Aluminium Holdings Limited (“**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as “**Group**”, “**our Group**”, “**we**”, “**our**”, “**us**”, “**Xingfa**” or “**Xingfa Aluminium**”) prepared under International Financial Reporting Standards (“**IFRSs**”) for the year ended 31 December 2021 (“**Year**”), together with the comparative figures for the corresponding financial year ended 31 December 2020 and the relevant explanatory notes as set out below.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2021

(Expressed in Renminbi)

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	2	15,432,900	11,886,862
Cost of sales		(13,621,056)	(10,257,443)
Gross profit		1,811,844	1,629,419
Other income	3	132,983	146,409
Distribution costs		(314,575)	(359,999)
Administrative expenses		(401,076)	(396,106)
Impairment loss on trade and other receivables		(79,455)	(53,058)
Profit from operations		1,149,721	966,665
Finance costs	4(a)	(101,063)	(101,592)
Share of (loss)/profit of an associate		(581)	8,339
Gain on disposal of an associate		3,460	–
Gain on loss of control on a subsidiary		3,664	–
Profit before taxation	4	1,055,201	873,412
Income tax	5	(168,084)	(111,953)
Profit for the year		887,117	761,459

	<i>Note</i>	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Attributable to:			
Equity shareholders of the Company		887,800	765,385
Non-controlling interests		(683)	(3,926)
		<u>887,117</u>	<u>761,459</u>
Profit for the year			
		<u>887,117</u>	<u>761,459</u>
Earnings per share			
	7		
Basic (<i>RMB yuan</i>)		<u>2.12</u>	<u>1.83</u>
Diluted (<i>RMB yuan</i>)		<u>2.11</u>	<u>1.83</u>

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

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

For the year ended 31 December 2021

(Expressed in Renminbi)

	2021	2020
	RMB'000	RMB'000
Profit for the year	887,117	761,459
Other comprehensive income for the year may be reclassified subsequently to profit or loss (after tax):		
Exchange differences on translation of financial statements of operations outside the Mainland China	(1,287)	3,094
Cash flow hedge: net movement in the hedging reserve	12,557	(4,828)
Other comprehensive income for the year	11,270	(1,734)
Total comprehensive income for the year	898,387	759,725
Attributable to:		
Equity shareholders of the Company	899,070	763,651
Non-controlling interests	(683)	(3,926)
Total comprehensive income for the year	898,387	759,725

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in Renminbi)

	<i>Note</i>	2021 RMB'000	2020 RMB'000
Non-current assets			
Investment property		169,427	73,008
Property, plant and equipment		2,534,160	2,271,247
		2,703,587	2,344,255
Right-of-use assets		330,465	336,187
Intangible assets		3,410	3,779
Interest in an associate		8,975	6,319
Equity securities designated at fair value through other comprehensive income (FVOCI)		11,183	–
Deferred tax assets		68,434	53,171
		3,126,054	2,743,711
Current assets			
Derivative financial instruments		15,289	14,471
Inventories and other contract costs	8	1,481,803	1,252,507
Trade and other receivables	9	4,667,569	3,546,003
Prepayments		199,421	199,172
Pledged deposits		208,919	170,558
Cash and cash equivalents		1,643,133	509,639
		8,216,134	5,692,350
Current liabilities			
Trade and other payables	10	4,725,224	3,321,622
Contract liabilities	11	228,274	197,670
Loans and borrowings		492,617	811,424
Lease liabilities		2,005	2,368
Derivative financial instruments		5,908	–
Current taxation		89,057	54,013
		5,543,085	4,387,097
Net current assets		2,673,049	1,305,253
Total assets less current liabilities		5,799,103	4,048,964

	2021	2020
<i>Note</i>	RMB'000	<i>RMB'000</i>
Non-current liabilities		
Loans and borrowings	1,258,742	318,868
Lease liabilities	5,447	6,523
Deferred income	25,566	14,663
Deferred tax liabilities	29,948	10,977
	<u>1,319,703</u>	<u>351,031</u>
Net assets	<u>4,479,400</u>	<u>3,697,933</u>
Capital and reserves		
Share capital	3,744	3,732
Reserves	4,475,598	3,693,460
Total equity attributable to equity shareholders of the Company	4,479,342	3,697,192
Non-controlling interests	58	741
Total equity	<u>4,479,400</u>	<u>3,697,933</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2021

(Expressed in Renminbi)

	2021 RMB'000	2020 RMB'000
Operating activities		
Cash generated from operations	1,464,844	1,109,296
Income tax paid	(131,220)	(135,050)
Land Appreciation Tax (“LAT”) paid	(329)	(848)
	<u>1,333,295</u>	<u>973,398</u>
Net cash generated from operating activities	<u>1,333,295</u>	<u>973,398</u>
Investing activities		
Interest received	78,083	53,899
Proceeds received upon maturity of pledged deposits	2,224,825	1,878,340
Payment for pledged deposits	(2,263,186)	(1,721,861)
Payment for purchase of property, plant and equipment	(686,834)	(438,918)
Payment for deposit of commodity futures contracts	(15,000)	(160,000)
Proceeds received from deposit of commodity futures contracts	28,861	175,354
Proceeds from disposal of property, plant and equipment	2,815	3,213
Proceeds from disposal of associate	10,000	–
Dividend received from associates	27,655	–
Payment for purchase of equity securities	(11,183)	–
Loss of control on a subsidiary, net of cash disposed	(854)	–
	<u>(604,818)</u>	<u>(209,973)</u>
Net cash used in investing activities	<u>(604,818)</u>	<u>(209,973)</u>
Financing activities		
Capital element of lease rentals paid	(1,603)	(4,041)
Interest element of lease rentals paid	(397)	(654)
Interest paid	(92,742)	(101,351)
Proceeds from loans and borrowings	3,267,714	1,958,924
Repayment of loans and borrowings	(2,646,647)	(2,527,740)
Proceeds from shares issued under share option scheme	6,084	316
Dividends paid to equity shareholders of the Company	(123,631)	(106,904)
	<u>408,778</u>	<u>(781,450)</u>
Net cash generated from/(used in) financing activities	<u>408,778</u>	<u>(781,450)</u>
Net increase/(decrease) in cash and cash equivalents	<u>1,137,255</u>	<u>(18,025)</u>
Cash and cash equivalents at 1 January	<u>509,639</u>	<u>528,003</u>
Effect of foreign exchange rate changes	<u>(3,761)</u>	<u>(339)</u>
Cash and cash equivalents at 31 December	<u>1,643,133</u>	<u>509,639</u>

Notes:

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

(a) Statement of compliance

The consolidated results set out in this announcement do not constitute the consolidated statements of the Group for the year ended 31 December 2021 but are extracted from those consolidated financial statements.

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

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in those financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2021 comprise the Group and the Group’s interest in an associate.

The consolidated financial statements are presented in Renminbi (“RMB”), rounded to the nearest thousand, which is the functional currency of the major subsidiaries carrying out the principal activities of the Group.

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to those financial statements for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform — Phase 2*
- Amendment to IFRS 16, *Covid-19-Related Rent Concessions beyond 30 June 2021*

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

2 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are manufacturing and sale of aluminium profiles and property development.

(i) *Disaggregation of revenue*

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated of product lines or service line		
— Sales of aluminium profiles	14,963,364	11,581,973
— Sales of aluminium panels, aluminium alloy, moulds and spare parts	451,543	279,010
— Sales of completed properties	13,079	14,984
— Revenue from processing service contracts	4,914	10,895
	<u>15,432,900</u>	<u>11,886,862</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in Notes 2(b)(i) and 2(b)(iii) respectively.

The Group's customer base is diversified and does not include any individual customer (2020: Nil) with whom transactions have exceeded 10% of the Group's revenue.

(ii) *Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date*

As at 31 December 2021, the transaction price allocated to the remaining performance obligations under the Group's existing contracts is expected to be recognised as revenue within one year.

(b) 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.
- All other segments: include the revenue generated from processing service contracts related to aluminium products, sale of office premises and residential properties and sale of aluminium panels, aluminium alloy, moulds and spare parts.

(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 attributable to each reportable segment on the following bases:

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2021 and 2020 is set out below:

	Industrial aluminium profiles		Construction aluminium profiles		All other segments		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Reportable segment revenue								
Revenue from external customers (point in time)	<u>2,869,879</u>	<u>2,320,269</u>	<u>12,093,485</u>	<u>9,261,704</u>	<u>469,536</u>	<u>304,889</u>	<u>15,432,900</u>	<u>11,886,862</u>
Reportable segment profit								
Gross profit	<u>211,714</u>	<u>228,534</u>	<u>1,430,870</u>	<u>1,246,404</u>	<u>169,260</u>	<u>154,481</u>	<u>1,811,844</u>	<u>1,629,419</u>

(ii) Reconciliations of reportable segment profit

	2021 RMB'000	2020 RMB'000
Reportable segment profit derived from the Group's external customers	1,811,844	1,629,419
Other income	132,983	146,409
Distribution costs	(314,575)	(359,999)
Administrative expenses	(401,076)	(396,106)
Impairment loss on trade and other receivables	(79,455)	(53,058)
Finance costs	(101,063)	(101,592)
Share of (loss)/profit of an associate	(581)	8,339
Gain on disposal of an associate	3,460	–
Gain on loss of control on a subsidiary	3,664	–
Consolidated profit before taxation	<u>1,055,201</u>	<u>873,412</u>

(iii) Geographic information

Analysis of the Group's revenue and results as well as analysis of the Group's carrying amount of non-current assets by geographical market has not been presented as over 98% (2020: 99%) of the revenue are generated from the People's Republic of China ("PRC") market.

3 OTHER INCOME

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest income	78,083	53,899
Government grants (i)		
— Unconditional subsidies	31,185	30,341
— Conditional subsidies	16,420	26,274
Rental income	14,764	13,594
Net foreign exchange loss	(2,171)	(3,769)
Cross currency interest rate swap: cash flow hedges, reclassified from equity	—	(737)
Changes in fair value of commodity future contracts recognised as hedge ineffectiveness	4,589	26,067
Changes in fair value of forward exchange agreements	(5,908)	—
(Loss)/gain on disposal of property, plant and equipment, and right-of-use assets	(3,979)	740
	<u>132,983</u>	<u>146,409</u>

(i) **Government grants in the form of cash subsidies were received from various PRC government authorities.**

— *Unconditional subsidies*

The entitlements of certain government grants amounting to RMB31,185,000 (2020: RMB30,341,000) were unconditional. The funds were to subsidise the operating expenses of the PRC subsidiaries of the Group during the current year.

— *Conditional subsidies*

The remaining government grants were conditional government grants and initially recorded as deferred income. The amount of conditional government grants charged to the consolidated statement of profit or loss for the year ended 31 December 2021 was RMB16,420,000 (2020: RMB26,274,000).

4 PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest expenses on bank loans	63,467	92,177
Interest expenses on discounted bills	37,199	7,629
Interest on lease liabilities	397	654
	<hr/>	<hr/>
Total interest expense on financial liabilities not at fair value through profit or loss	101,063	100,460
	<hr/>	<hr/>
Cross currency interest rate swap: cash flow hedges, reclassified from equity	–	1,132
	<hr/>	<hr/>
	101,063	101,592
	<hr/> <hr/>	<hr/> <hr/>

(b) Staff costs:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Contributions to defined contribution retirement plans	81,500	57,423
Equity-settled share-based payment expenses	627	1,794
Salaries, wages and other benefits	936,999	900,312
	<hr/>	<hr/>
	1,019,126	959,529
	<hr/> <hr/>	<hr/> <hr/>

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in defined contribution retirement benefit schemes (“Schemes”) organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Schemes based on certain percentages of the eligible employees’ salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

Contributions to the Mandatory Provident Fund (“MPF”) are required under the Hong Kong Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The Group and its employees in Hong Kong are required to make monthly mandatory contributions to the MPF scheme at 5% of the employees’ relevant income as defined under the Mandatory Provident Fund Schemes Ordinance. The monthly mandatory contributions from employees and employers are subject to a cap of monthly relevant income of Hong Kong Dollars (“HKD”) 30,000 for the year ended 31 December 2021 (2020: HKD30,000).

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

(c) **Other items:**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Depreciation charge		
— Investment properties	2,487	2,093
— Property, plant and equipment	371,165	393,800
— Right-of-use assets	10,058	12,409
Amortisation cost of intangible assets	369	343
Provision/(reversal) of impairment losses on		
— trade receivables	79,675	52,870
— other receivables	(220)	188
Auditors' remuneration		
— audit services	1,395	1,355
— other services	784	760
Cost of inventories (i)/(Note 8)	13,621,056	10,257,443
Research and development costs (ii)	689,641	526,769
	<u>689,641</u>	<u>526,769</u>

(i) Cost of inventories for the year ended 31 December 2021 included RMB987,126,000 (2020: RMB959,500,000) relating to depreciation and staff costs, which amount is also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses, and net gain of RMB97,660,000 (2020: RMB96,952,000) reclassified from other comprehensive income on commodity futures contracts which were designated as cash flow hedging instruments.

(ii) Research and development costs for the year ended 31 December 2021 included RMB174,509,000 (2020: RMB139,380,000) relating to depreciation and staff costs of employees, which amount is also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current tax		
Provision for PRC corporate income tax (“CIT”)	156,729	113,931
Provision for PRC LAT	1,864	1,332
	<u>158,593</u>	<u>115,263</u>
Deferred tax		
Reversal and origination of temporary differences	9,491	(3,310)
	<u>9,491</u>	<u>(3,310)</u>
	<u>168,084</u>	<u>111,953</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The provision for Hong Kong Profits Tax is calculated at 16.5% (2020: 16.5%), of the estimated assessable profits for the year ended 31 December 2021, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.

The provision for Hong Kong Profits Tax for 2021 is taken into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2020/21 subject to a maximum reduction of HK\$10,000 for each business (2020: a maximum reduction of HK\$20,000 was granted for the year of assessment 2019/20 and was taken into account in calculating the provision for 2020).

- (iii) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for 2021 (2020: 25%) except for Guangdong Xingfa Aluminium Co., Ltd. (“**Guangdong Xingfa**”), Xingfa Aluminium (Chengdu) Co., Ltd. (“**Xingfa Chengdu**”), Guangdong Xingfa Aluminium (Henan) Co., Ltd. (“**Xingfa Henan**”) and Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. (“**Xingfa Jiangxi**”) which were certified as “High and New Technology Enterprises” (“**HNTE**”) and entitled to the preferential income tax rate of 15% for 2021 (2020: 15%).
- (iv) Pursuant to the new tax law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable to a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the “beneficial owner” and holds 25% or more of the equity interest of the PRC enterprise. The Group’s Hong Kong subsidiary has obtained the Certificate of Resident Status of the Hong Kong Special Administrative Region and therefore have adopted the withholding tax rate at 5% for PRC withholding tax.

As at 31 December 2021, deferred tax liabilities of RMB28,583,000 (2020: RMB10,977,000) have been provided for in this regard based on the expected dividends to be distributed from the PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

- (v) During the year of 2021, Guangdong Xingfa, Xingfa Chengdu, Xingfa Henan and Xingfa Jiangxi obtained approval from local tax authorities to claim super deduction on research and development expenses incurred in 2020. As such, the income tax for 2021 was reduced by RMB22,124,000 (2020: RMB18,002,000). Such additional tax deduction on research and development expenses equals 75% (2020: 75%) of the amount actually incurred.

- (vi) LAT is levied on properties developed in the PRC by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including lease charges of land use rights, borrowing costs and relevant property development expenditures.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit before taxation	1,055,201	873,412
<i>Less:</i> LAT	<u>1,864</u>	<u>1,332</u>
Profit before CIT and Hong Kong Profits Tax	<u><u>1,053,337</u></u>	<u><u>872,080</u></u>
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdiction concerned	268,991	214,115
Tax effect of non-deductible expenses	777	760
Tax effect of share of profit of an associate	–	(1,251)
Effect of tax concessions	(107,030)	(90,369)
Super deduction on research and development expenses in respect of prior year (<i>Note 5(a)(v)</i>)	(22,124)	(18,002)
Effect of withholding on undistributed profits retained by PRC subsidiaries	<u>25,606</u>	<u>5,368</u>
CIT and Hong Kong Profits Tax	166,220	110,621
<i>Add:</i> LAT	<u>1,864</u>	<u>1,332</u>
Income tax expense	<u><u>168,084</u></u>	<u><u>111,953</u></u>

6 DIVIDENDS

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividends proposed after the end of reporting year of HKD0.80 per ordinary share (2020: HKD0.36)	<u><u>274,593</u></u>	<u><u>126,697</u></u>

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

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Final dividends in respect of the previous financial year, approved and paid during the year, of HKD0.36 per ordinary share (2020: HKD0.28)	<u>123,631</u>	<u>106,904</u>

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 RMB887,800,000 (2020: RMB765,385,000) and the weighted average number of 418,923,000 ordinary shares (2020: 418,008,000 ordinary shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Issued ordinary shares at 1 January	418,068	418,000
Effect of share options exercised	<u>855</u>	<u>8</u>
Weighted average number of ordinary shares at 31 December	<u>418,923</u>	<u>418,008</u>

(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 RMB887,800,000 (2020: RMB765,385,000) and the weighted average number of ordinary shares of 420,268,000 shares (2020: 419,115,000), calculated as follows:

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit attributable to ordinary equity shareholders (diluted)	<u>887,800</u>	<u>765,385</u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Weighted average number of ordinary shares at 31 December	418,923	418,008
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	<u>1,345</u>	<u>1,107</u>
Weighted average number of ordinary shares (diluted) at 31 December	<u><u>420,268</u></u>	<u><u>419,115</u></u>

8 INVENTORIES AND OTHER CONTRACT COSTS

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Inventories		
Aluminium profiles manufacturing		
— Raw materials	473,738	383,304
— Work in progress	146,574	132,942
— Finished goods	<u>728,692</u>	<u>485,981</u>
	<u><u>1,349,004</u></u>	<u><u>1,002,227</u></u>
Completed properties for sale		
— Land use rights	27,843	28,273
— Deed tax	2,796	2,839
— Construction costs	<u>102,160</u>	<u>219,168</u>
	<u><u>132,799</u></u>	<u><u>250,280</u></u>
	<u><u>1,481,803</u></u>	<u><u>1,252,507</u></u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Carrying amount of inventories sold	<u><u>13,621,056</u></u>	<u><u>10,257,443</u></u>

All of the inventories are expected to be recovered within one year, except for completed properties for sale which is expected to be recovered after more than one year.

9 TRADE AND OTHER RECEIVABLES

	<i>Note</i>	2021 RMB'000	2020 RMB'000
Trade debtors and bills receivable, net of loss allowance	<i>(i)</i>	4,526,155	3,411,421
Other debtors, net of loss allowance	<i>(ii)</i>	141,414	106,927
Financial assets measured at amortised cost		4,667,569	3,518,348
Dividend receivable		–	27,655
		4,667,569	3,546,003

- (i) Bills receivable of RMB968,015,000 was pledged as securities for issuance of bills payable of the Group as at 31 December 2021 (31 December 2020: RMB671,890,000).
- (ii) As at 31 December 2021, loss allowance on other debtors is RMB2,262,000 (31 December 2020: RMB2,482,000).
- (iii) The Group's trade and other receivables as at 31 December 2021 included amounts due from related parties of RMB53,254,000 (31 December 2020: RMB48,005,000). The amount of trade and other receivables that is expected to be recovered after more than one year is RMB11,702,000 (2020: RMB10,165,000), which relates to retention money of construction contracts. All of the other current trade and other receivables are expected to be recovered or recognised as expense within one year.

Aging analysis

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

	2021 RMB'000	2020 RMB'000
Within 1 month	2,099,689	1,671,973
1 to 3 months	1,187,352	839,427
3 to 6 months	790,216	676,807
Over 6 months	448,898	223,214
	4,526,155	3,411,421

Trade debtors and bills receivable are due within 30 days to 120 days from the date of billing.

10 TRADE AND OTHER PAYABLES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables	1,723,242	951,766
Bills payable	2,269,526	1,616,647
Accrued payroll and benefits	258,855	265,037
Other payables and accruals	447,329	470,096
Interest payable	9,720	1,796
Deferred income	16,552	16,280
	<u>4,725,224</u>	<u>3,321,622</u>

Apart from those mentioned in Note 11, all of the trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 1 month	1,566,333	706,016
1 to 3 months	709,742	594,588
3 to 6 months	609,776	747,522
Over 6 months	1,106,917	520,287
	<u>3,992,768</u>	<u>2,568,413</u>

As at 31 December 2021, bills payable of RMB394,448,000 was secured by bills receivables of the Group (31 December 2020: RMB267,847,000) (Note 9), bills payable of RMB1,459,989,000 was secured by pledged deposits of the Group (31 December 2020: RMB1,084,500,000).

11 CONTRACT LIABILITIES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Aluminium profiles contracts		
— Billings in advance of performance	228,274	194,408
Completed properties for sale		
— Forward sales deposits and instalments received	—	3,262
	<u>228,274</u>	<u>197,670</u>

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

— **Aluminium profiles contracts**

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the contracts exceeds the amount of the deposit. The amount of the deposit, if any, was negotiated on a case by case basis with customers.

— **Completed properties for sale**

The Group receives 50%-100% of the contract value as deposit from customers when they sign the sales and purchase agreement. The deposit is recognised as a contract liability until the properties are legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

Movements in contract liabilities

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January	197,670	164,027
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(197,670)	(164,027)
Increase in contract liabilities as a result of billing in advance of manufacturing activities	228,274	194,408
Increase in contract liabilities as a result of receiving forward sales instalments during the year in respect of properties not delivered as at the year end	—	3,262
Balance at 31 December	<u>228,274</u>	<u>197,670</u>

All of the contract liabilities are expected to be recognised as income within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY AND BUSINESS OVERVIEW

Industry Review

2021 was a year of both challenges and gains for the domestic aluminium processing industry. Uncertainties such as the COVID-19 pandemic, fluctuating aluminium prices, dual energy control and high international shipping costs have led to higher production costs and higher operating risks for aluminium processing enterprises. However, under the direction of “Ensuring Supply for Stable Price (保供穩費)” by the PRC government and the explosive growth in some sub-sectors during the Year, the aluminium products, profits and exports nationwide have their growth trends maintained. According to the National Bureau of Statistics and the Chinese customs, the output and export volume of aluminium profiles for 2021 increased by 7.4% and 17.9% respectively with the major annual indicators expected to exceed the pre-epidemic level, achieving a good start for the “14th Five-Year Plan (十四五)”.

As the largest consumer of the aluminium profile market in the PRC, the real estate sector continues to experience significant adjustments under the combined impact from the uncertain macro environment and the domestic policy of “three red lines (三條紅線)”. During the Year, the capital chains of a number of major real estate developers were affected and their projects in various places had to be suspended. This has not only weakened the demand for construction aluminium profiles but also given rise to bad and doubtful debts, affecting the cash flow of upstream aluminium suppliers. However, even though the development of real estate projects had slowed down, the Group believes that there is still a huge demand for construction aluminium profiles in the PRC market, as construction aluminium profiles are needed whether in home remoulding and renovation as well as functional renovation, etc. As a leading domestic manufacturer for construction aluminium profiles, the Group is expected to seize the opportunity of adjusting the industry, strengthening resource integration and solidifying its foundation to prepare for long-term development.

After years of development, many new applications have emerged in the aluminium profile industry. As the country has accelerated towards the “reaching carbon peak and carbon neutralization (雙碳)” policy, processed aluminium profiles are further recognized by the public for their advantages in environment protection and energy saving. Among those processed aluminium profiles, aluminum for photovoltaic use has become one of the fastest growing sub-sectors of aluminium applications in the PRC, with the market expectation of annual consumption of aluminium for photovoltaic use to double by 2025. With the gradual improvement of our business layout in areas other than construction profiles and with the official commencement of production at the precision manufacturing base in Sanshui, Foshan, Guangdong Province which has the capacity of producing industrial aluminium profiles during the Year, we shall be in a better position to expand into this new blue ocean and to seize the opportunities arising from the fast-growing new applications for the realization of the dual-engine strategy of “construction profiles + industrial profiles” that the Group is promoting in recent years.

Business Review

Xingfa Aluminium is one of the leading aluminium profile 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. In 2002, 2012 and 2017, the Group was awarded the “No. 1 of the National Construction Aluminium Profiles Enterprise” by the China Non-Ferrous Metals Fabrication Industrial Association for three consecutive sessions and was awarded the “Made-in-China Beauty — Industry Benchmark Award (中國製造之美行業標杆獎)” and the “Top 500 Enterprises in Guangdong Manufacturing Industry (ranking 60th)” in 2020 and 2021 respectively. As of 31 December 2021, the Group had obtained approximately 103 national patents and participated in the drafting of approximately 1,550 national and industry standards. Currently, we are also one of the largest global suppliers of electrical conductive aluminium profiles for metro vehicles. In recent years, the Group focuses on gradually establishing our sales outlets in the prefecture-level cities in Southern China and Eastern China, and at the same time has invested its resources to increase its establishment of sales outlets mainly in key cities of relatively under-developed regions, and apparent positive results were seen from the regional sales data.

In 2021, amidst a complex and volatile macro environment, the Group adopted a relatively conservative sales approach to consolidate its existing business while achieving steady growth in production and sales volume. In view of the further tightening of financing conditions imposed on the domestic real estate industry, the Group has prudently selected to work with real estate developers who were relatively financially sound to reduce the risk of bad and doubtful debts. Concurrently, the Group has strengthened its ties with real estate developers whom it has been working with to provide more flexible payment cycles, so as to ride out the hard times with them while maintaining healthy cash flow and to enhance customer loyalty in the long run. Despite the challenging environment in the industry as a whole, by virtue of our strong capabilities in the field of construction aluminium profiles, the Group still has ample contracts in hand for full production at our production facilities generally.

During the Year, the Group actively strengthened its strategies in the industrial aluminium profile sector and gradually increased its production capacity in the hope of being adequately equipped before entering this new blue ocean which is full of opportunities. After two years of construction and debug, the precision manufacturing base situated at Sanshui, Foshan, Guangdong Province commenced official production finally in 2021. Currently, staff training for the plant has been generally completed and the overall operation is in line with the expectation of the management. Out of the nine production lines in aggregate, seven were put into service during the Year and assemblance of the other two will be completed and put into operation in 2022. With the unique positioning of the precision plant (精密廠房), it is expected that the Group could utilise the fruitful research results of the Xingfa Research Institute in the field of industrial profiles in the mass production stage, allowing the Group to launch more top-selling products that are well recognized by the market in addition to Xingfa Door and Window Systems (興發門窗系統) to drive the growth of its performance.

For overseas market, as the pandemic remained severe, some of the markets that the Group has been vigorously developing in recent years, such as Vietnam and Australia, have once experienced temporary underproduction locally, resulting in the shortage of aluminium profile products in the market. However, given the persistently high sea freight rates and the severe shortage of warehouse spaces, the Group has also encountered certain difficulties in expanding its overseas business. In addition, immigration control imposed by various countries has also hindered the plan of exploring new markets by our sales staff. Therefore, the Group shall strengthen our domestic business during this period and satisfy the needs of our overseas customers when circumstances permit while preparing for the full expansion into overseas markets in the post-epidemic period.

Revenue

For the year ended 31 December 2021, the revenue and sales volume of the Group increased by 29.8% and 5.1% to approximately RMB15,432.9 million and 685,006 tonnes respectively (2020: RMB11,886.9 million and 651,721 tonnes respectively), of which the sales of construction aluminium profiles and industrial aluminium profiles accounted for 78.4% and 18.6% of the revenue respectively. The gross profit of the Group for the Year increased by 11.2% year-on-year to approximately RMB1,811.8 million. The gross profit margin was 11.7% (2020: 13.7%), and such a decrease was mainly due to the increase in the procurement costs was stronger than expected during the Year as a result of general increase in the price of raw materials. During the Year, the profit attributable to owners of the Company was approximately RMB887.8 million, representing an increase of 16.0% year-on-year.

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 2021, the revenue of construction aluminium profiles increased by 30.6% to approximately RMB12,093.5 million (2020: RMB9,261.7 million), and sales volume increased by 6.2% to approximately 534,309 tonnes (2020: 502,948 tonnes).

Industrial aluminium profiles

The industrial aluminium profiles are mainly plain aluminium profiles, which can be used as container frames and other products such as new conductive profiles of urban railway locomotives and ship components. Moreover, the industrial aluminium profiles can be produced into 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 2021 increased by 23.7% to approximately RMB2,869.9 million (2020: RMB2,320.3 million), and sales volume remained stable at approximately 144,096 tonnes (2020: 144,142 tonnes).

PROSPECT

At the beginning of 2022, the Group is still optimistic about the domestic economy and the aluminium profile industry. Since the inception of the “14th Five-Year Plan (十四五)”, by virtue of the smooth implementation of domestic policies and cooperation among different parties and coupled with the decisive and efficient anti-epidemic policies, the economic growth rate has been higher than that of other major economies. Under this environment, the level of national consumption continues to rise with increasing demand for ancillary commodities, one of which is housing. Although a number of policies of the Chinese government has been executed to suppress the irrational expansion of the real estate industry, the healthy development of the real estate industry is still being supported in the long run, in hopes of satisfying the housing demand and allowing the living of citizens ensured with felicity. Therefore, the Group believes that the construction aluminium profile market will gradually recover after this round of adjustment. In addition, with the improvement of living standards, the demand for home remoulding and renovation will be increased. As a leading manufacturer of construction aluminium profiles in the PRC, the Group will benefit from the healthy development of the real estate industry.

Besides, the Group well understands the importance of diversifying its businesses for long-term development, so we have actively participated in the flourishing market for industrial aluminium profiles which have been widely used in recent years. The precision manufacturing base in Guangdong, which was put into operation in 2021, focuses on the production of high-end industrial aluminium profiles to be applied in the fields of high-end electronic communication equipment, heat cooling equipment, medical equipment and military applications, etc., shouldering the important task of vitalizing the aluminium industry and the dual-engine backed up by construction aluminium profiles and industrial aluminium profiles. Meanwhile, the exclusive research and development team for industrial aluminium profiles is also working round the clock to study the technology in this area, aspiring to improving the production capacity of industrial aluminium profiles and to developing additional new applications, especially products that can help achieve the direction of “reaching carbon peak and carbon neutralization (雙碳)” policy, so as to develop new growth engines for the Group.

In order to undertake more and larger orders, the Group has never slowed down its pace in capacity expansion. Following the precision manufacturing base in Guangdong, we are constructing a new manufacturing base in Zhejiang with its trial production expected to begin in the second half of 2023. The new plant has a designated area for industrial aluminium profiles, which is capable of satisfying orders for industrial aluminium profiles and construction aluminium profiles and is larger than the precision manufacturing base in Guangdong in terms of both site area and production capacity, with its expected annual output reaching 200,000 tonnes and accounting for 30% of our existing overall production capacity. Moreover, the Group is preparing to establish its first overseas manufacturing base in Australia, while the specific plan will be finalized after the end of the pandemic. We believe that setting up factories overseas is the key to expanding overseas business. By setting up factories locally, the required cost and time can be reduced for export of products while the recognition of the Group can also be enhanced at the same time, playing an important role in our stable development.

FINANCIAL REVIEW

Revenue

The revenue and sales volume of the Group for the Year increased by 29.8% and 5.1% year-on-year to approximately RMB15,432.9 million and 685,006 tonnes respectively (2020: RMB11,886.9 million and 651,721 tonnes respectively). The growth was attributable to the increase in sales orders during the Year.

The sales volume of construction aluminium profiles for the Year increased by 6.2% to 534,309 tonnes (2020: 502,948 tonnes). Meanwhile, the sales volume of industrial aluminium profiles for the Year remained stable at 144,096 tonnes (2020: 144,142 tonnes).

The following table sets forth the details of our revenue by reportable segments for the years ended 31 December 2021 and 2020:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Manufacturing and sale of aluminium profiles		
– Construction aluminium profiles	12,093,485	9,261,704
– Industrial aluminium profiles	2,869,879	2,320,269
	14,963,364	11,581,973
All other segments	469,536	304,889
Total	15,432,900	11,886,862

Note: Our Group's revenue from all other segments represented revenue generated from processing service contracts related to aluminum products, sale of office premises and residential properties and sale of aluminium panels, aluminium alloy, moulds and spare parts.

Gross profit and gross profit margin

The gross profit of the Group for the Year increased by 11.2% year-on-year to approximately RMB1,811.8 million (2020: RMB1,629.4 million).

The overall gross profit margin for the Year of the Group decreased by 2.0% to 11.7% (2020: 13.7%), and the sales to production ratio remained stable at 97% (2020: 99%).

The following table sets forth the gross profit margin of our aluminium profiles in 2021 and 2020:

	2021	2020
Construction aluminium profiles	11.8%	13.5%
Industrial aluminium profiles	7.4%	9.8%

The gross profit margin of construction aluminium profiles and industrial aluminium profiles decreased to 11.8% and 7.4% for the Year respectively as compared to that of 2020. Such decrease was mainly because the increase in the procurement costs was stronger than expected during the Year as a result of general increase in the price of raw materials.

Other income

Other income of the Group for the Year decreased by 9.2% year-on-year to approximately RMB133.0 million (2020: RMB146.4 million), which was mainly attributable to the decrease in changes in fair value of commodity future contracts as a result of a more effective hedging.

Distribution costs

The distribution costs of the Group for the Year decreased by 12.6% to approximately RMB314.6 million (2020: RMB360.0 million), which accounted for 2.0% of the revenue (2020: 3.0%). The decrease was mainly due to the effective cost control implemented by the Group.

Administrative expenses

Due to business expansion of the Group, the number of management staff increased, resulting in an increase in staff costs during the Year. As a result, the administrative expenses of the Group for the Year increased by 1.3% to approximately RMB401.1 million (2020: RMB396.1 million), which accounted for 2.6% of the revenue (2020: 3.3%).

Finance costs

Finance costs remained stable at approximately RMB101.1 million for the Year (2020: RMB101.6 million) mainly due to the overall decrease in effective interest rate despite the increase in loans and borrowings during the Year.

Profit for the Year and net profit margin

The profit attributable to shareholders of the Company (“**Shareholders**”) for the Year increased by 16.0% year-on-year to approximately RMB887.8 million (2020: RMB765.4 million). The increase was primarily attributable to the increase in sales orders during the Year.

ANALYSIS OF FINANCIAL POSITION

Current and quick ratios

The following table sets out our Group’s current and quick ratios as at 31 December 2021 and 2020:

	2021	2020
Current ratio (<i>Note i</i>)	1.48	1.30
Quick ratio (<i>Note ii</i>)	1.21	1.01

Notes:

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

Both ratios as at 31 December 2021 increased as compared to those as at 31 December 2020. Such increases were in line with higher level of cash and cash equivalents as of 31 December 2021 due to higher utilization of banking facilities.

Gearing ratio

The following table sets out our Group's gearing ratio as at 31 December 2021 and 2020:

	2021	2020
Gearing ratio (<i>Note</i>)	15.4%	13.4%

Note:

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

The gearing ratio increased for the Year as compared to that of 2020 which was mainly due to the increase in the balances of loans and borrowings as at 31 December 2021.

Inventory turnover days

The following table sets out our Group's inventory turnover days during the years ended 31 December 2021 and 2020:

	2021	2020
Inventory turnover days (<i>Note</i>)	37	42

Note:

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

The production efficiency was improved due to better arrangement on production plans, leading to a reduction in inventory backlog and the inventory turnover days for the Year.

Debtors' turnover days

The following table sets out our Group's debtors' turnover days during the years ended 31 December 2021 and 2020:

	2021	2020
Debtors' turnover days (<i>Note</i>)	94	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 years multiplied by 365 days.

The debtors' turnover days decreased slightly for the Year as compared to that of 2020. This was mainly because a tighter credit control over the debtors was implemented during the Year.

Creditors' turnover days

The following table sets out our Group's creditors' turnover days during the years ended 31 December 2021 and 2020:

	2021	2020
Creditors' turnover days (<i>Note</i>)	88	83

Note:

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

The creditors' turnover days for the Year increased as compared to that of 2020. This was mainly because longer credit period was granted by the main suppliers due to better negotiation power of the Group.

Loans and borrowings

As at 31 December 2021, the Group's loans and borrowings dominated in RMB amounted to approximately RMB1,751.4 million (31 December 2020: RMB1,130.3 million), of which approximately RMB632.6 million were fixed rate borrowings (31 December 2020: RMB518.6 million).

Save for typically lower borrowing requirements in the first quarter of the Year due to holidays during the Chinese Lunar New Year, there was no seasonality in the Group's bank borrowing requirements.

Banking facilities and guarantee

As at 31 December 2021, the banking facilities of the Group amounted to approximately RMB9,023.0 million (31 December 2020: RMB9,377.0 million), of which approximately RMB5,185.0 million were utilised (31 December 2020: RMB2,770.0 million).

No banking facilities were guaranteed by related parties of the Group.

Capital expenditure

Capital expenditure was used for acquisition of property, plant and equipment and lease prepayment. During the Year, our Group's capital expenditure amounted to approximately RMB686.8 million (2020: RMB438.9 million). The significant increase in capital expenditure during the Year was mainly due to the acquisition of equipment and lease prepayment for our production plants.

Capital structure

As at 31 December 2021, the Company had 419,496,334 ordinary shares of HK\$0.01 each in issue. During the Year, a total of 1,428,134 ordinary shares of the Company were issued upon the exercise of share options granted under the share option scheme of the Company at an exercise price of HK\$5.46 per share by certain Directors and employees of the Group.

Financial instruments for hedging purposes

During the year ended 31 December 2021, 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 futures contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of the futures contracts but instead designates the futures contract in its entirety in a hedging relationship.

TREASURY POLICIES

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserve of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in both short term and long term.

Certain sales and purchases of inventories of the Group are denominated in the United States ("US") dollars and Hong Kong ("HK") dollars. Furthermore, certain trade receivables, trade payables, bank balances and bank loans are denominated in US dollars and HK dollars, therefore exposing the Group to the currency risk of US dollars and HK dollars.

CASH FLOW HIGHLIGHTS

The following table sets out our Group's cash flow highlights during the years ended 31 December 2021 and 2020:

	2021	2020
	RMB'000	RMB'000
Net cash generated from operating activities	1,333,295	973,398
Interest received	78,083	53,899
Payment for purchase of property, plant and equipment	(686,834)	(438,918)
Interest paid	(92,742)	(101,351)
Net increase/(decrease) in bank borrowings	621,067	(568,816)
Dividends paid to equity shareholders of the Company	(123,631)	(106,904)

We generally finance our operations through internally generated cash flows and bank borrowings. 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 31 December 2021, the Group had cash and cash equivalents of RMB1,643.1 million (31 December 2020: RMB509.6 million), among which 0.76% was held in US dollars, 2.0% 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 western side of Changang Road, Chancheng District, Foshan City, Guangdong Province, the PRC. The land use rights of the property were 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 a gross floor area of approximately 123,527.29 sq.m..

During the Year, 8 units of “Xingfa Plaza” (興發大廈) had been sold and delivered. The revenue recognized from such sale for the Year amounted to approximately RMB13.1 million (2020: RMB15.0 million).

HUMAN RESOURCES

As at 31 December 2021, our Group employed a total of approximately 8,854 full time employees in the PRC and Hong Kong which included management staff, technicians, salespersons and workers. In 2021, our Group's total expenses on the remuneration of employees were approximately RMB1,019.1 million, represented approximately 6.6% 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), 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.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HKD0.80 per ordinary share for the Year (2020: HKD0.36) to Shareholders whose names appear on the register of members of the Company on Friday, 10 June 2022.

Subject to the approval of the Shareholders at the forthcoming annual general meeting, the final dividend will be paid in Hong Kong Dollars on or around Friday, 24 June 2022.

EVENTS OCCURRED AFTER THE REPORTING PERIOD

Exercise of share options

Subsequent to the end of the Year and up to the date of this announcement, an aggregate of 320,000 ordinary shares were issued upon exercise of share options granted under the share option scheme of the Company at an exercise price of HK\$5.46 per share. As at the date of this announcement, 419,816,334 ordinary shares of HK\$0.01 each in the share capital of the Company were in issue.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the right to attend the forthcoming annual general meeting to be held on Friday, 27 May 2022, the register of members of the Company will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022 (both days inclusive). During such period, no transfer of the shares of the Company will be registered. In order to qualify for the attendance in the forthcoming annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong not later than 4:30 p.m. on Monday, 23 May 2022.

For the purpose of determining the entitlement to the final dividend, the register of members of the Company will be closed from Wednesday, 8 June 2022 to Friday, 10 June 2022 (both days inclusive). During such period, no transfer of the shares of the Company will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong not later than 4:30 p.m. on Tuesday, 7 June 2022.

The current Hong Kong branch share registrar and transfer office of the Company ("**Share Registrar**") is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. With effect from 1 May 2022, the Share Registrar will be changed to Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong ("**New Share Registrar**").

Application for registration and transfer of shares of the Company should be lodged with the New Share Registrar with effect from 1 May 2022. Share certificates uncollected on or after 29 April 2022 shall be collected from the New Share Registrar from 3 May 2022 onwards.

CORPORATE GOVERNANCE

In the opinion of the Directors, save as mentioned below, the Company had complied with all the code provisions of the then prevailing Corporate Governance Code ("**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**") for the Year.

According to code provision A.2.7 of the Corporate Governance Code, the chairman should at least annually hold meetings with the independent non-executive directors without the presence of other directors. During the Year, Mr. LIU Libin, the Chairman of the Board, did not hold any meeting with the independent non-executive Directors without the presence of other directors. However, the Chairman held meetings with the independent non-executive Directors with the presence of other Directors periodically during the Year to understand their concerns, to discuss pertinent issues and to ensure that there is access to adequate and complete information. The independent non-executive Directors can have direct contacts with the Chairman after meetings if necessary.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The 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 (“**Code of Conduct**”) regarding Directors’ securities transactions. After having made specific enquiry with all Directors, the Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code and the Code of Conduct for the Year.

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, the majority thereof must be independent non-executive directors, and 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 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 management, serves as the chairman of the audit committee of the Board.

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 the Year.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's audited consolidated financial statements for the Year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

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

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the Year.

PUBLICATION OF 2021 ANNUAL 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 2021 annual report of the Company containing all the information required by the Listing Rules will be despatched to the Shareholders 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

25 March 2022

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. WANG Lei
Mr. LAW Yung Koon
Mr. WANG Zhihua
Mr. LUO Jianfeng

Non-executive Directors:

Mr. ZUO Manlun
Ms. XIE Jingyun

Independent non-executive Directors:

Mr. CHEN Mo
Mr. HO Kwan Yiu
Mr. LAM Ying Hung, Andy
Mr. WEN Xianjun