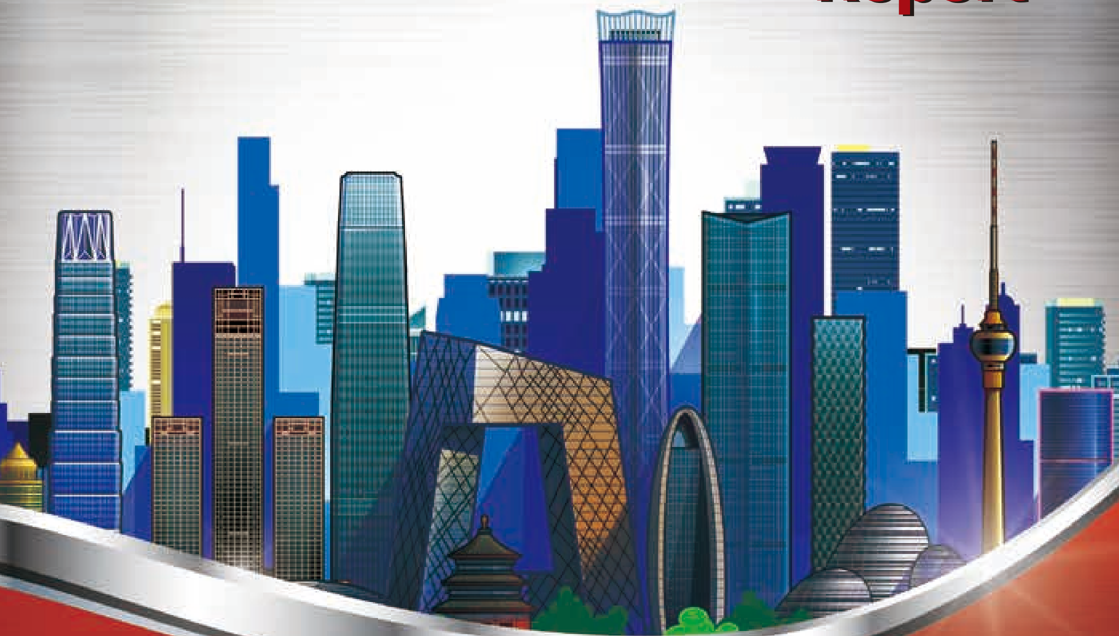
興 發 鋁 業 控 股 有 限 公 司

XINGFA ALUMINIUM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(HKEX stock code: 98)

2018 Interim Report



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CORPORATE INFORMATION

DIRECTORS AND BOARD COMMITTEES

Directors

Executive Directors

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

Non-executive Directors

LU Chaoying
ZUO Manlun

Independent Non-executive Directors

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

Board Committees

Audit Committee

LAM Ying Hung, Andy *(Chairman)*
CHEN Mo
HO Kwan Yiu
LU Chaoying

Remuneration Committee

HO Kwan Yiu *(Chairman)*
CHEN Mo
LAM Ying Hung, Andy
LIU Libin
LIAO Yuqing

Nomination Committee

LIU Libin *(Chairman)*
CHEN Mo
HO Kwan Yiu
LAM Ying Hung, Andy
Zuo Manlun

Company Secretary

WONG Tik

AUTHORIZED REPRESENTATIVES

LIU Libin
LIAO Yuqing
WONG Tik
(alternate to LIU Libin)
LAM Ying Hung, Andy
(alternate to LIAO Yuqing)

REGISTERED OFFICE

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Wing On Plaza
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Kowloon
Hong Kong

PRINCIPAL BANKERS

Bank of China
Agriculture Bank of China
China Construction Bank
Corporation

LEGAL ADVISER

As to Hong Kong law:

Leung & Lau

As to Cayman Islands law:

Conyers Dill & Pearman

AUDITORS

KPMG
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

SMP Partners (Cayman) Limited
Royal Bank House
3rd Floor, 24 Shedden Road
P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 22, Hopewell Centre
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Hong Kong

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STOCK CODE

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INTRODUCTION

The board of directors ("**Directors**" or "**Board**") of Xingfa Aluminium Holdings Limited ("**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as "**Group**", "**our Group**", "**we**", "**us**", "**Xingfa**" **or** "**Xingfa Aluminium**") prepared under International Financial Reporting Standards ("**IFRSs**") for the six months ended 30 June 2018 ("**1H18**"), together with the comparative figures for the corresponding period in 2017 ("**1H17**") and the relevant explanatory notes as set out below. The consolidated results are unaudited, but have been reviewed by the audit committee of the Board and the Company's independent auditors, KPMG.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2018	2017
	Note	***RMB'000***	*RMB'000*
			(Note)
Revenue	*3*	**4,043,760**	3,053,421
Cost of sales	*9*	**(3,532,318)**	(2,614,927)
Gross profit		**511,442**	438,494
Other income		**28,077**	21,615
Distribution costs		**(93,058)**	(91,891)
Administrative expenses		**(158,028)**	(154,033)
Other operating expenses		**(1,819)**	–
Profit from operations		**286,614**	214,185
Finance costs	*5(a)*	**(82,680)**	(60,124)
Share of profit of an associate		**2,176**	2,042
Profit before taxation	*5*	**206,110**	156,103
Income tax	*6*	**(27,998)**	(13,686)
Profit for the period attributable to equity shareholders of the Company		**178,112**	142,417
Basic and diluted earnings per share *(RMB yuan)*	*7*	**0.43**	0.34

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 11 to 40 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 16.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
		(Note)
Profit for the period	**178,112**	142,417
Other comprehensive income for the period:		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC") which may be reclassified subsequently to profit or loss	**2,288**	(342)
Total comprehensive income for the period attributable to equity shareholders of the Company	**180,400**	142,075

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 11 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2018** *RMB'000*	At 31 December 2017 *RMB'000* *(Note)*
Non-current assets			
Property, plant and equipment	*8*	**1,902,811**	1,862,769
Lease prepayments		**369,316**	373,699
Interest in an associate		**18,390**	16,451
Deferred tax assets		**49,455**	48,570
		2,339,972	2,301,489
Current assets			
Inventories	*9*	**1,526,339**	1,263,683
Trade and other receivables	*10*	**2,433,000**	2,132,420
Pledged deposits	*11*	**200,768**	167,419
Cash and cash equivalents	*12*	**617,994**	579,450
		4,778,101	4,142,972
Current liabilities			
Trade and other payables	*13*	**1,735,288**	1,817,723
Contract liabilities	*14*	**473,505**	–
Loans and borrowings	*15*	**2,307,387**	1,968,314
Current taxation		**20,668**	24,469
		4,536,848	3,810,506
Net current assets		**241,253**	332,466
Total assets less current liabilities		**2,581,225**	2,633,955

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2018 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2018 RMB'000**	At 31 December 2017 RMB'000 (Note)
Non-current liabilities			
Loans and borrowings	15	**355,707**	514,385
Deferred tax liabilities		**6,538**	5,115
Deferred income		**33,303**	45,420
		395,548	564,920
NET ASSETS		**2,185,677**	2,069,035
CAPITAL AND RESERVES			
Share capital		**3,731**	3,731
Reserves		**2,181,946**	2,065,304
TOTAL EQUITY		**2,185,677**	2,069,035

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

Approved and authorised for issue by the board of directors on 27 August 2018.

Liu Libin
Chairman

Liao Yuqing
Executive Director

The notes on pages 11 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company							
	Note	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Other reserve *RMB'000*	Statutory reserves *RMB'000*	Exchange reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2017		3,731	179,568	6,200	209,822	205,700	(1,988)	1,084,887	1,687,920
Changes in equity for the six months ended 30 June 2017:									
Profit for the period		–	–	–	–	–	–	142,417	142,417
Other comprehensive income		–	–	–	–	–	(342)	–	(342)
Total comprehensive income		–	–	–	–	–	(342)	142,417	142,075
Balance at 30 June 2017 and 1 July 2017		3,731	179,568	6,200	209,822	205,700	(2,330)	1,227,304	1,829,995
Changes in equity for the six months ended 31 December 2017:									
Profit for the period		–	–	–	–	–	–	240,213	240,213
Other comprehensive income		–	–	–	–	–	(1,173)	–	(1,173)
Total comprehensive income		–	–	–	–	–	(1,173)	240,213	239,040
Appropriation to reserves		–	–	–	–	40,153	–	(40,153)	–
Balance at 31 December 2017 *(Note)*		3,731	179,568	6,200	209,822	245,853	(3,503)	1,427,364	2,069,035
Balance at 31 December 2017		3,731	179,568	6,200	209,822	245,853	(3,503)	1,427,364	2,069,035
Impact on initial application of IFRS 15	*2*	–	–	–	–	–	–	6,725	6,725
Adjusted balance at 1 January 2018		3,731	179,568	6,200	209,822	245,853	(3,503)	1,434,089	2,075,760
Changes in equity for the six months ended 30 June 2018:									
Profit for the period		–	–	–	–	–	–	178,112	178,112
Other comprehensive income		–	–	–	–	–	2,288	–	2,288
Total comprehensive income		–	–	–	–	–	2,288	178,112	180,400
Dividends approved and paid to equity shareholders of the Company	*16(a)*	–	–	–	–	–	–	(70,483)	(70,483)
Balance at 30 June 2018		3,731	179,568	6,200	209,822	245,853	(1,215)	1,541,718	2,185,677

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

The notes on pages 11 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2018 – unaudited
(Expressed in Renminbi)

	Note	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Operating activities			
Cash generated from operations		**246,787**	100,634
Income tax paid		**(33,502)**	(30,546)
Net cash generated from operating activities		**213,285**	70,088
Investing activities			
Payment for the purchase of property, plant and equipment		**(172,193)**	(159,710)
Payment for pledged deposits		**(207,794)**	(188,402)
Proceeds received upon maturity of pledged deposits		**174,445**	153,733
Other cash flow arising from investing activities		**3,456**	3,359
Net cash used in investing activities		**(202,086)**	(191,020)
Financing activities			
Interest paid		**(83,223)**	(58,740)
Proceeds from loans and borrowings		**1,520,173**	1,041,700
Repayment of loans and borrowings		**(1,339,778)**	(630,084)
Dividends paid to equity shareholders of the Company		**(70,483)**	–
Net cash generated from financing activities		**26,689**	352,876
Net increase in cash and cash equivalents		**37,888**	231,944
Cash and cash equivalents at 1 January	*12*	**579,450**	443,431
Effect of foreign exchange rates changes		**656**	(2,950)
Cash and cash equivalents at 30 June	*12*	**617,994**	672,425

The notes on pages 11 to 40 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 27 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of the changes in accounting policies are set out in Note 2.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Xingfa Aluminium Holdings Limited (the "Company") and its subsidiaries (the "Group") since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 41 and 42.

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2 Changes in accounting policies

(a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

The Group has been impacted by IFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by IFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in Note 2(b) for IFRS 9 and Note 2(c) for IFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of IFRS 9 and IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by IFRS 9 and/or IFRS 15:

	At 31 December 2017	Impact on initial application of IFRS 9 *(Note 2(b))*	Impact on initial application of IFRS 15 *(Note 2(c))*	At 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories	1,263,683	–	15,049	1,278,732
Total current assets	**4,142,972**	**-**	**15,049**	**4,158,021**
Contract liabilities	–	–	386,761	386,761
Trade and other payables	1,817,723	–	(380,678)	1,437,045
Total current liabilities	**3,810,506**	**-**	**6,083**	**3,816,589**
Net current assets	**332,466**	**-**	**8,966**	**341,432**
Total assets less current liabilities	**2,633,955**	**-**	**8,966**	**2,642,921**
Deferred tax liabilities	5,115	–	2,241	7,356
Total non-current liabilities	**564,920**	**-**	**2,241**	**567,161**
Net assets	**2,069,035**	**-**	**6,725**	**2,075,760**
Reserves	2,065,304	–	6,725	2,072,029
Total equity	**2,069,035**	**-**	**6,725**	**2,075,760**

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

There is no impact of transition to IFRS9 on retained earnings and reserves at 1 January 2018.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

The measurement categories for all financial assets and financial liabilities remain the same.

The carrying amounts for all financial assets and financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) *Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the expected credit losses (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables); and

– lease receivables.

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

– variable-rate financial assets: current effective interest rate; and

– lease receivables: discount rate used in the measurement of the lease receivable;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 180 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

The Group has concluded that there would be no material impact for the initial application of the new impairment requirements.

(iii) *Transition*

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held; and

  - If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

(c) IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 11 and IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to IFRS 15 on retained earnings and the related tax impact at 1 January 2018:

	RMB'000
Retained earnings	
Capitalisation of sales commissions	8,966
Related tax	(2,241)
Net increase in retained earnings at 1 January 2018	6,725

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) *Timing of revenue recognition*

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises revenue from sales of aluminium products. However, the timing of revenue recognition for sales of properties is affected as follows:

The Group's property development activities are carried out in the PRC only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of PRC, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously the Group recognised revenue arising from the sale of properties upon the signing of the sale and purchase agreement, the receipt of the deposits and confirmation of arrangement of settlement of remaining sales proceeds or the achievement of status ready for hand-over to customers as stipulated in the sale and purchase agreement, whichever is the later, which was taken to be the point in time when the risks and rewards of ownership of the property were transferred to the customer. Under the transfer-of-control approach in IFRS 15, revenue from property sales is generally recognised when the property is accepted by the customer, or deemed as accepted according to the contract, whichever is earlier, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

This change in accounting policy had no material impact on opening balances as at 1 January 2018.

(ii) Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance.

It is common for the Group to receive payments significantly in advance of revenue recognition in the Group's sales of properties when the properties are marketed by the Group while the property is still under construction. In this situation, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than on legal assignment.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the Group to reflect the effect of the financing benefit obtained by the Group from the customers during the period between the payment date and the revenue recognition date. This accrual increases the amount of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under IAS 23, *Borrowing costs*.

As a result of this change in policy, the Group has made adjustments which increased inventories and contract liabilities by RMB6,083,353 at 1 January 2018. As all of the accrued interest was eligible to be capitalised into projects still under construction, this change in policy has had no effect on retained earnings as at 1 January 2018.

(iii) Sales commissions payable related to property sales contracts

The Group previously recognised sales commissions payable related to property sales contracts as distribution costs when they were incurred. Under IFRS 15, the Group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as distribution costs at that time.

As a result of this change in accounting policy, the Group has capitalised sales commissions payable related to property sales contracts amounting to RMB8,966,000, increased deferred tax liability by RMB2,241,000 and increased retained earnings by RMB6,725,000 at 1 January 2018.

(iv) Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, the Group has made the following adjustment at 1 January 2018, as a result of the adoption of IFRS 15:

“Advances received” amounting to RMB380,678,000, which was previously included in trade and other payables are now included under contract liabilities.

(d) ***IFRIC 22, Foreign currency transactions and advance consideration***

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial result of the Group.

3 Revenue and segment reporting

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

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

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

- Other products and services included the provision of processing services, manufacture and sale of aluminium alloy, moulds and spare parts. None of these products and services meets any of the quantitative thresholds for determining reportable segments according to IFRS8.

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated of product lines		
– Industrial aluminium profiles	**1,072,838**	706,410
– Construction aluminium profiles	**2,905,557**	2,283,126
– Other products and services	**65,365**	63,885
	4,043,760	3,053,421
Disaggregated by geographical location of customers		
– Mainland China, except for Hong Kong	**3,876,169**	2,882,789
– Hong Kong	**119,241**	148,179
– Asia Pacific, except for Mainland China and Hong Kong	**28,502**	19,386
– Africa	**18,644**	2,683
– Other regions	**1,204**	384
	4,043,760	3,053,421

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

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

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

For the six months ended 30 June	Industrial aluminium profiles 2018 RMB'000	Industrial aluminium profiles 2017 RMB'000	Construction aluminium profiles 2018 RMB'000	Construction aluminium profiles 2017 RMB'000	Other segments 2018 RMB'000	Other segments 2017 RMB'000	Total 2018 RMB'000	Total 2017 RMB'000
Disaggregated by timing of revenue recognition								
Point in time	**1,072,838**	706,410	**2,905,557**	2,283,126	**65,365**	63,885	**4,043,760**	3,053,421
Reportable segment revenue								
Revenue from external customers	**1,072,838**	706,410	**2,905,557**	2,283,126	**65,365**	63,885	**4,043,760**	3,053,421
Reportable segment profit								
Gross profit	**136,123**	82,666	**346,860**	320,797	**28,459**	35,031	**511,442**	438,494

(c) Reconciliations of reportable segment profit or loss

	Six months ended 30 June 2018 RMB'000	2017 RMB'000
Reportable segment profit derived from the Group's external customers	**511,442**	438,494
Other income	**28,077**	21,615
Distribution costs	**(93,058)**	(91,891)
Administrative expenses	**(158,028)**	(154,033)
Other operating expenses	**(1,819)**	–
Finance costs	**(82,680)**	(60,124)
Share of profit of an associate	**2,176**	2,042
Consolidated profit before taxation	**206,110**	156,103

4 Seasonality of operations

The Group's operation on average experiences 40% lower sales in the first quarter, compared to the other quarters in the year, due to the decreased demand for its products during the Chinese New Year holidays.

For the twelve months ended 30 June 2018, the Group reported revenue of RMB8,229,997,000 (twelve months ended 30 June 2017: RMB6,341,132,000), and gross profit of RMB1,087,537,000 (twelve months ended 30 June 2017: RMB896,728,000).

5 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Interest expenses on bank loans	**69,552**	52,472
Interest expenses on discounted bills	**13,128**	7,652
	82,680	60,124

(b) Staff costs:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Salaries, wages, bonuses and benefits	**268,298**	251,194
Contribution to defined contribution retirement schemes	**25,319**	21,417
	293,617	272,611

(c) Other items:

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
		(Note)
Depreciation	**135,914**	132,370
Amortisation of lease prepayments	**4,383**	3,517
Impairment losses recognised for doubtful debts *(Note 10) (i)*	**1,819**	12,885
Operating lease charges	**1,295**	1,009
Interest income	**3,369**	2,786
Cost of inventories *(ii)/(Note 9)*	**3,532,318**	2,614,927
Research and development costs *(iii)*	**165,060**	62,509

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

(i) During the six months ended 30 June 2018, provision for doubtful debts of RMB1,819,000 (six months ended 30 June 2017: RMB12,885,000) was recognised in "Other operating expenses" (six months ended 30 June 2017: recorded in administrative expenses).

(ii) During the six months ended 30 June 2018, cost of inventories included RMB136,405,000 relating to depreciation and operating lease charges (six months ended 30 June 2017: RMB119,798,000), which amount is also included in the respective total amounts disclosed separately above, and RMB178,108,000 relating to staff costs (six months ended 30 June 2017: RMB171,086,000) as disclosed in Note 5(b).

(iii) Research and development costs for the period ended 30 June 2018 included RMB26,460,000 (six months ended 30 June 2017: RMB20,733,000) relating to staff costs of employees which amount is also included in total staff costs as disclosed in Note 5(b).

6 Income tax

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current tax – PRC corporate income tax	**24,222**	25,900
Current tax – Hong Kong Profits Tax	**979**	978
Deferred tax	**2,797**	(13,192)
	27,998	13,686

(a) 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, respectively.

(b) The provision for Hong Kong Profits Tax for the six months ended 30 June 2018 is calculated by applying the estimated annual effective tax rate of 16.5% (six months ended 30 June 2017: 16.5%).

(c) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax as follows:

- Foshan Xingfa Real Estate Co., Ltd. Foshan Xingfa Trading Co., Ltd. and Xingfa Precision Manufacturing Co., Ltd. are liable to the PRC corporate income tax at a rate of 25% for the six months ended 30 June 2018 (six months ended 30 June 2017: 25%).

- Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. ("Xingfa Jiangxi") were certified as "Advanced and New Technology Enterprises" ("ANTE") for the period from 2016 to 2019 and entitled to the preferential income tax rate of 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

- Guangdong Xingfa Aluminium Co., Ltd. ("Guangdong Xingfa") and Guangdong Xingfa Aluminium (Henan) Co., Ltd. ("Xingfa Henan") were qualified as an ANTE and entitled to the preferential income tax rate of 15% for a valid period of three years from 2015 to 2017. Guangdong Xingfa and Xingfa Henan were in the process of applying for the renewal of ANTE certificate for another three years from 2018 to 2020. The directors believed that these subsidiaries will be able to renew the ANTE certificate and continue to be entitled to the preferential income tax rate for 2018 to 2020. Hence, the corporate income tax rate being used for Guangdong Xingfa and Xingfa Henan was 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

- Xingfa Aluminium (Chengdu) Co., Ltd. ("Xingfa Chengdu") was qualified as "the encouraged industries of the Western Development Strategy" and enjoyed a preferential tax rate of 15% since 2016 to 2020.

7 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB178,112,000 (six months ended 30 June 2017: RMB142,417,000) and 418,000,000 shares (six months ended 30 June 2017: 418,000,000 shares) in issue during the interim period.

There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2018 and 2017, and therefore, the diluted earnings per share are the same as the basic earnings per share.

8 Property, plant and equipment

During the six months ended 30 June 2018, the Group acquired items of plant and machinery with a cost of RMB176,223,000 (six months ended 30 June 2017: RMB155,164,000). Items of plant and machinery with a net book value of RMB267,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB156,000), resulting in a loss on disposal of RMB179,000 (six months ended 30 June 2017: RMB62,000).

9 Inventories and other contract costs

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000* *(Note)*
Aluminium products *(i)*	**1,085,431**	946,218
Properties under construction	**431,785**	317,465
Contract costs *(ii)*	**9,123**	–
	1,526,339	1,263,683

Note: The Group has initially applied IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated *(see Note 2(c))*.

(i) During the six months ended 30 June 2018, inventories of RMB3,532,318,000 (six months ended 30 June 2017: RMB2,614,927,000) were recognised as an expense during the period and included in 'cost of sales'. No inventory provision was recorded in this period (six months ended 30 June 2017: Nil).

(ii) As a result of the adoption of IFRS 15, sales commissions paid to property agents whose selling activities resulted in customers entering into sale and purchase agreement for the Group's properties which are still under construction are included in contract costs.

10 Trade and other receivables

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within 1 month	**1,255,108**	1,186,764
1 to 3 months	**695,005**	509,604
3 to 6 months	**201,776**	232,380
Over 6 months	**127,929**	71,113
Trade debtors and bills receivable, net of allowance for doubtful debts *(i)*	**2,279,818**	1,999,861
Other receivables, net of allowance for doubtful debts	**14,380**	16,439
Deposits and prepayments	**121,282**	101,788
Prepaid tax for pre-sales of property *(ii)*	**17,520**	14,332
	2,433,000	2,132,420

(i) Trade debtors and bills receivable are due within 60 days to 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.

(ii) The balance includes prepaid Land Appreciation Tax ("LAT") of RMB8,463,000 (31 December 2017: RMB6,938,000), prepaid Value-Added Tax ("VAT") of RMB8,061,000 (31 December 2017: RMB6,577,000) and surcharges of RMB996,000(31 December 2017: RMB817,000), in relation to pre-sales of property.

(iii) Certain bills receivable with carrying value of RMB382,355,000 were pledged as securities for bank loans of the Group as at 30 June 2018 (31 December 2017: RMB185,759,000) *(Note 15)*.

11 Pledged deposits

Pledged deposits mainly represented bank deposits pledged to bank as securities for certain banking facilities and bills payable.

12 Cash and cash equivalents

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
Cash at bank and in hand	**617,994**	579,450

13 Trade and other payables

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

	At 30 June 2018	At 31 December 2017
	RMB'000	*RMB'000*
Within 1 month	**836,944**	364,935
1 to 3 months	**332,719**	358,174
3 to 6 months	**110,233**	218,489
Over 6 months	**160,508**	91,242
Trade creditors and bills payable	**1,440,404**	1,032,840
Receipts in advance *(i)*	**–**	380,678
Accrued payroll and benefits	**95,632**	159,961
Other payables	**161,341**	208,777
Interest payable	**11,550**	12,093
Deferred income	**26,361**	23,374
	1,735,288	1,817,723

(i) As a result of the adoption of IFRS 15, advances received is included in contract liabilities *(see Note 2(c) and Note 14)*.

14 Contract liabilities

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000 (Note)
Receipts in advance		
– from aluminium customers	**175,251**	–
– from pre-sales of real estate	**290,393**	–
Significant financing component arising from pre-sales of real estate	**7,861**	–
	473,505	–

Note: The Group has initially applied IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated *(see Note 2(c))*.

As a result of the adoption of IFRS 15, advances received and significant financing component arising from pre-sales of real estates are both included in contract liabilities *(see Note 2(c))*.

15 Loans and borrowings

Loans and borrowings were repayable as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Within one year	**2,307,387**	1,968,314
After 1 year but within 2 years	**257,107**	377,785
After 2 years but within 5 years	**98,600**	136,600
	355,707	514,385
Total	**2,663,094**	2,482,699

Loans and borrowings were secured as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Secured bank loans	**2,543,094**	2,382,699
Unsecured bank loans	**120,000**	100,000
	2,663,094	2,482,699

The secured bank loans were secured by the following assets of the Group as at the end of the reporting period:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Carrying value of assets:		
Property, plant and equipment	**518,345**	637,547
Lease prepayments	**283,909**	287,424
Bills receivable *(Note 10)*	**382,355**	185,759
Pledged deposits *(Note 11)*	**13,370**	5,000
	1,197,979	1,115,730

16 Dividends

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

The directors do not propose any payment of interim dividends for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

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

	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the interim period ended 30 June 2018 of HKD0.2 per share (six months ended 30 June 2017: Nil)	**70,483**	–

17 Commitments

(a) Capital commitments outstanding not provided for in the interim financial report

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Contracted for		
– Purchase of property, plant and equipment for the production base in Chengdu City	**8,232**	5,992
– Purchase of property, plant and equipment for the production base in Yichun City	**6,499**	19,367
– Purchase of property, plant and equipment for the production base in Sanshui, Foshan City	**45,878**	46,868
– Purchase of property, plant and equipment for the production base in Qinyang City	**19,532**	32,012
– Building an integrated commercial and residential property base in Nanzhuang, Foshan City	**49,190**	158,465
	129,331	262,704
Authorised but not contracted for		
– Building an integrated commercial and residential property base in Nanzhuang, Foshan City	**–**	30,796
Total	**129,331**	293,500

18 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions:

(a) Transactions

During the six months ended 30 June 2018, the Group sold goods of RMB71,299,000 (six months ended 30 June 2017: RMB81,533,000) to Guangdong Xingfa Curtain Wall, Door & Window Co., Ltd. ("Xingfa Curtain Wall"), which is effectively owned by certain existing and past executive directors.

During the six months ended 30 June 2018, the Group sold goods and service of RMB18,646,000 (six months ended 30 June 2017: RMB42,928,000) to Jiangxi Province Jingxing Aluminium Panel Manufacturing Co., Ltd. ("Jiangxi Jingxing"), which is an associate of the Group.

(b) Balances with related parties

As at the end of the reporting period, the Group had the balance due from Xingfa Curtain Wall of RMB27,303,000 (31 December 2017: RMB28,179,000) and balance due from Jiangxi Jingxing of RMB62,171,000 (31 December 2017: RMB81,402,000).

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment.

19 Comparative figures

The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in Note 2.

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the six months ended 30 June 2018

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to IFRS 9, Prepayment features with negative compensation, which have been adopted at the same time as IFRS 9 *(see Note 2(b))*, the Group has not early adopted any new or amended standards in preparing this interim financial report.

The Group has the following update to the information provided in the last annual financial statements in respect of IFRS 16, Leases, which may have a significant impact on the Group's consolidated financial statements.

IFRS 16, Leases

As discussed in the 2017 annual financial statements, currently the Group classifies leases into operating leases. Upon the adoption of IFRS 16, where the Group is the lessee under the lease the Group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. IFRS 16 will primarily affect the Group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

The following is an updated information about the Group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Properties
	RMB'000
Amounts payable:	
Within 6 months	1,310
After 6 months but within 1 year	1,053
After 1 year but within 5 years	6,709
After 5 years	5,159
	14,231

Upon the initial adoption of IFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16.

INDEPENDENT REVIEW REPORT

REVIEW REPORT TO THE BOARD OF DIRECTORS OF XINGFA ALUMINIUM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 5 to 40 which comprises the consolidated statement of financial position of Xingfa Aluminium Holdings Limited as of 30 June 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

27 August 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Industry and Business Overview

Xingfa Aluminium is one of the leading aluminium profiles manufacturers in the PRC and is principally engaged in the manufacture and sale of aluminium profiles that are used as construction and industrial materials. Currently, we are one of the largest providers of electricity conductive aluminium profile for metro vehicles in the PRC. By leveraging on our advanced research and development capability and commitment to quality, our Group has established extensive and stable sales networks in the PRC and overseas for the past 30 years. In 1H18, the Group's revenue and profit increased by 32.4% and 25.1% to approximately RMB4,043.8 million and RMB178.1 million respectively as compared to the corresponding period of last year.

During the period under review, although the demand in the project construction market remained robust, its growth had slowed down, while the application sector and growth of industrial aluminium profiles were gradually improving. As affected by such multi-level factors like changes in national macroeconomy, environmental policies and real estate purchasing patterns, real estate developers were increasingly concentrated, whereby the requirements for suppliers in terms of comprehensive strengths, capital and supply assurance are escalating which benefit the fittest to survive. As a supplier of construction aluminium profiles with strong comprehensive strengths, the changes in the construction market not only provide challenges and but also opportunities from the Group's perspective.

In view of our ongoing rapid development in recent years, it drove the improvement in team building and service capabilities of our distributors and had facilitated their rapid development. At the same time, by adhering to the market demand and development-oriented approach and driven by Xingfa brand, product technology, production location layout, sales network and scalable advantages, Xingfa has gradually leveraged on its advantages in production location layout due to its generic regional Eastern China, Southern China and Bohai development to driving the synergistic development of Central China, Northern China and the western regions. For its products, Xingfa kept up with the market development and accelerated the pace in exploring new sectors on the basis of consolidating its advantageous categories. During 1H18, we achieved a fast growth in sales in the aluminium panels sector, while the Group is expanding its lightweight transportation and systemic door and window segment.

Our aluminium profiles still focused on domestic sales, which accounted for approximately 96% of total revenue during the period under review. For overseas market, under the influence of external trading environment in recent years, the Group adjusted its market focus to the markets in Australia, Southeast Asia and Africa in addition to maintaining its original customer base, among which, sales to Vietnam and Australia mainly focused on in-depth processing products.

Currently, the Group's lean management reform has already been implemented in the headquarter functional departments, Sanshui Industrial Zone, as well as the production bases in Chengdu and Jiangxi, and will be fully implemented in the second half of this year, so as to save cost and increase efficiency and create maximum benefit for our shareholders.

Prospects

The management expects the industry environment in the second half of 2018 will be comparable to that of 1H18 and the demand for project construction aluminium profiles will continue to flourish in the future, but a slowdown in growth is expected. However, the application sector and growth of industrial aluminium profiles will gradually improve which has broad market prospects. In order to maintain the competitive strengths of Xingfa, the Group will continue to strengthen its sales channels, and enhance the cooperation and service with quality real estate enterprises and sourcing units. On the other hand, the Group will continue to layout the emerging market segment, and increase its investments in product innovation, service innovation and management innovation. By leveraging on our competitive strengths, we still remain optimistic about the prospects of future business development.

Moreover, the Group is planning to construct a new manufacturing base in Sanshui Industrial Zone to expand its business in manufacturing aluminum profiles for industrial use and for in-depth processing projects. It is planned to commence construction by the end of this year and start production in the first half of 2020. This new manufacturing base is expected to bring new business opportunities to the Group in developing, manufacturing and selling high technology aluminium products, such as high precision electronic products, lightweight traffic aluminium materials, in-depth processing products and aluminium alloys panels.

By aiming to develop Xingfa Aluminium as an all-rounded and one-stop aluminium profile service provider, we will continue to look for business opportunities for downstream merger and acquisition in China under a prudent investment approach.

Financial Review

Revenue

The revenue and sales volume of the Group increased to approximately RMB4,043.8 million and 219,500 tonnes respectively for 1H18 (1H17: RMB3,053.4 million and 168,700 tonnes respectively). The growth was attributable to the significant increase in sales orders due to the successful implementation of marketing strategies and expansion of sales channels.

The revenue of construction aluminium profiles for 1H18 increased by 27.3% to approximately RMB2,905.6 million (1H17: RMB2,283.1 million) and the sales volume of which increased by 23.8% to approximately 154,000 tonnes (1H17: approximately 124,400 tonnes). Meanwhile, the revenue of industrial aluminium profiles for 1H18 increased by 51.9% to approximately RMB1,072.8 million (1H17: RMB706.4 million) and the sales volume of which increased by 47.8% to approximately 65,500 tonnes (1H17: approximately 44,300 tonnes).

Gross profit and gross profit margin

The gross profit of the Group for 1H18 increased by 16.6% year-on-year to approximately RMB511.4 million (1H17: RMB438.5 million).

The overall gross profit margin for 1H18 of the Group decreased to 12.6% (1H17: 14.4%), while the sales to production ratio decreased slightly to 94.8% (1H17: 96.6%).

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

	Six months ended 30 June	
	2018	2017
Overall	**12.6%**	14.4%
Industrial aluminium profiles	**12.7%**	11.7%
Construction aluminium profiles	**11.9%**	14.1%

The gross profit ratio of industrial aluminium profile remained steady for 1H18 as compared to that of 1H17.

The gross profit ratio of construction aluminium profiles for 1H18 decreased as compared to that of 1H17. This was mainly because the Group lowered the processing fee in order to maintain the existing customers and attract new customers.

Other income

The other income of the Group for 1H18 increased by 29.9% year-on-year to approximately RMB28.1 million (1H17: RMB21.6 million), which was mainly attributable to the increase in the government grants. Government grants represent various forms of incentives and subsidies received from the local government authorities in the PRC. During the Period, the Group recognized government grants of approximately RMB21.1 million (1H17: RMB17.8 million) as other income.

Distribution costs

The distribution costs of the Group for 1H18 increased slightly by 1.3% to approximately RMB93.1 million (1H17: RMB91.9 million), which was 2.3% of the revenue (1H17: 3.0%). During the period, more sale orders were fulfilled by self-pick up, thus our delivery costs as a percentage of revenue decreased accordingly.

Administrative expenses

The administrative expenses of the Group for 1H18 increased by 2.6% to approximately RMB158.0 million (1H17: RMB154.0 million), which was 3.9% of the revenue (1H17: 5.0%).

Profit for the period and net profit margin

Our Group recorded profit for the period of approximately RMB178.1 million in 1H18, representing a growth of 25.1% as compared to that of 1H17 (1H17: RMB142.4 million), whilst the net profit margin decreased slightly to 4.4% in 1H18 (1H17: 4.7%).

The Board believes that such increase in profit was primarily attributable to the significant increase in sales orders due to the successful implementation of marketing strategies and expansion of sales channels.

ANALYSIS OF FINANCIAL POSITION

Current and quick ratios

The following table sets out our Group's current and quick ratios as at 30 June 2018 and 31 December 2017:

	At 30 June 2018	At 31 December 2017
Current ratio *(i)*	**1.05**	1.09
Quick ratio *(ii)*	**0.72**	0.76

Note:

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

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

Both ratios remained steady as at 30 June 2018 as compared to that as at 31 December 2017.

Gearing ratio

The following table sets out our Group's gearing ratio as at 30 June 2018 and 31 December 2017:

	At 30 June 2018	At 31 December 2017
Gearing ratio *(Note)*	**37.4%**	38.5%

Note:

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

The gearing ratio remained steady as at 30 June 2018 as compared to that as at 31 December 2017.

Inventory turnover days

The following table sets out our Group's inventory turnover days during 1H18 and 1H17:

	Six months ended 30 June	
	2018	2017
Inventory turnover days *(Note)*	**71**	79

Note:

Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the periods divided by the total cost of sales during the periods multiplied by 181 days.

The inventory turnover days for 1H18 decreased as compared to that of 1H17 which was mainly due to the continuing adoption of lean production strategy and more effective combination of products, whereby the delivery period was then shortened.

Debtors' turnover days

The following table sets out our Group's debtors' turnover days during 1H18 and 1H17:

	Six months ended 30 June	
	2018	2017
Debtors' turnover days *(Note)*	**96**	91

Note:

Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables (net of allowance for doubtful debts) for the periods divided by revenue during the periods multiplied by 181 days.

The debtors' turnover days for 1H18 increased as compared to that of 1H17 which was mainly due to better credit terms were offered by the Group to certain large distributors.

Creditors' turnover days

The following table sets out our Group's creditors' turnover days during 1H18 and 1H17:

	Six months ended 30 June	
	2018	2017
Creditors' turnover days *(Note)*	**63**	93

Note:

Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the periods divided by the total cost of sales during the periods multiplied by 181 days.

The creditors' turnover days for 1H18 decreased as compared to that of 1H17. This was mainly because the Group used prepayment terms more during 1H18 for acquisition of aluminium ingots and aluminium bars in order to lock-up the price of aluminium ingots with the suppliers.

Loans and borrowings

As at 30 June 2018, the Group's loan and borrowings amounted to approximately RMB2,663.1 million (31 December 2017: RMB2,482.7 million), among which amounted to approximately RMB1,686.1 million were at fixed interest rates.

Further details of the Group's loans and borrowings at the balance sheet date, including the maturity profile, are set out in note 15 in notes to the unaudited interim financial report in this report.

Banking facilities

As at 30 June 2018, the banking facilities of the Group amounted to approximately RMB4,862.0 million (31 December 2017: RMB4,760.8 million), of which approximately RMB3,241.3 million were utilized (31 December 2017: RMB2,875.7 million).

Capital structure

As at 30 June 2018, the Company had 418,000,000 ordinary shares of HK$0.01 each in issue. No shares of the Company has been issued or repurchased during 1H18.

Cash flow highlights

The following table sets out our Group's cash flow highlights during 1H18 and 1H17:

	Six months ended 30 June	
	2018	2017
	RMB' million	*RMB' million*
Net cash generated from operating activities	**213.3**	70.1
Acquisitions of property, plant and equipment	**(172.2)**	(159.7)
Interest paid	**(83.2)**	(58.7)
Net increase in bank borrowings	**180.4**	411.6
Dividends paid	**(70.5)**	–

We generally finance our operations through internally generated cash flows, bank borrowings and our cash and cash equivalents. As at 30 June 2018, the Group had cash and cash equivalents of approximately RMB618.0 million, among which 5.2% was held in HK dollars, 0.8% was held in US dollars and the remaining balance was held in Renminbi. 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.

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 US dollars and HK dollars. Furthermore, certain trade receivables, trade payables, bank balances are denominated in US dollars and HK dollars, therefore exposing the Group to the currency risk of US dollars and HK dollars. The Group had no material exposure to foreign exchange fluctuation and no hedging has been arranged during the six months ended 30 June 2018.

Property under development

As at 30 June 2018, the Group's properties under construction amounted to approximately RMB431.8 million (31 December 2017: RMB317.5 million). Such property, namely Project Xingfa Plaza, is 100% owned by the Group and is located at the northern side of Jihua Road and western side of Changang Road, Chancheng District, Foshan City, Guangdong Province, the PRC. The property is scheduled to be delivered in the second half of 2018 and 2019. The land use rights of the property have been granted for a term of 40 years expiring on 19 May 2050 for commercial service, office, culture and entertainment uses. The property comprises a parcel of land with a site area of approximately 16,961.36 sq. m.. Upon completion, the development will have a planned gross floor area of approximately 123,716.39 sq.m..

Human resources

As at 30 June 2018, our Group employed a total of approximately 6,740 (2017: 6,344) full time employees in the PRC and Hong Kong which included management staff, technicians, salespersons and workers. In 1H18, our Group's total expenses on the remuneration of employees were approximately RMB293.6 million (2017: approximately RMB272.6 million) represented approximately 7.3% of the revenue of our Group. Our Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees), housing fund, medical insurance, unemployment insurance and other relevant insurance (according to the PRC rules and regulations for PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. In-house and external training programmes are provided as and when required.

OTHER INFORMATION

Interim Dividend

The Directors do not propose the payment of interim dividend for 1H18 (1H17: Nil).

Share Option Scheme

The Company conditionally adopted a share option scheme ("**2008 Share Option Scheme**") on 29 February 2008. The 2008 Share Option Scheme became effective on 31 March 2008 and expired on 30 March 2018. The Company conditionally adopted a new share option scheme ("**2018 Share Option Scheme**") on 29 December 2017. The 2018 Share Option Scheme became effective for 10 years commencing from 5 January 2018.

No share option was granted, exercised, cancelled or lapsed under the 2008 Share Option Scheme or the 2018 Share Option Scheme since adoption and up to 30 June 2018.

Directors' Rights to Acquire Shares or Debt Securities

At no time during 1H18 were rights to acquire benefits by means of the acquisitions of Shares in or debentures of the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in nay other body corporate.

Sufficiency of Public Float

Based on information that is available to the Company and within the knowledge of its Directors, the Company ahs maintained sufficient public float as required under the Rules ("**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") during the six months ended 30 June 2018.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during 1H18.

Directors' Interests in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("**SFO**")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("**Model Code**"), to be notified to the Company and the Stock Exchange, were as follows:

Long position

Company/Name of associated corporations	Name of directors	Capacity	Number and class of securities	Percentage shareholding in the same class of securities as at 30 June 2018
Company	LIAO Yuqing	Beneficial owner	48,200,100 ordinary Shares	11.53%
Company	LAW Yung Koon	Beneficial owner	19,050,000 ordinary Shares	4.56%
		Interest of spouse	1,719,000 ordinary Shares	0.41%

As at 30 June 2018, save as disclosed above, none of the Directors or the chief executive of the Company had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders and Other Persons who are Required to Disclose their Interests Pursuant to Part XV of the SFO

As at 30 June 2018, the following persons, other than a Director or the executive of the Company, had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO:

Long Position

Name of entities	Capacity	Number and class of securities	Percentage shareholding in the same class of securities as at 30 June 2018
Guangxin Aluminium (HK) Limited	Beneficial owner	125,360,000 ordinary Shares	29.99%
廣東省廣新控股集團有限公司	Interest of controlled corporation	125,360,000 ordinary Shares	29.99%
State-owned Assets Supervision and Administration Commission of The People's Government of Guangdong Province	Interest of controlled corporation	125,360,000 ordinary Shares	29.99%
Lesso Group Holdings Limited	Beneficial owner	109,842,900 ordinary Shares	26.28%
China Lesso Group Holdings Limited	Interest of controlled corporation	109,842,900 ordinary Shares	26.28%
New Fortune Star Limited	Interest of controlled corporation	109,842,900 ordinary Shares	26.28%
Xi Xi Development Limited	Interest of controlled corporation	109,842,900 ordinary Shares	26.28%
UBS Trustees (B.V.I.) Limited	Interest of controlled corporation	109,842,900 ordinary Shares	26.28%
WONG Luen Hei	Founder of a discretionary trust who can influence how the trustee exercises his discretion	109,842,900 ordinary Shares	26.28%

Save as disclosed above and in the paragraph headed "Directors' interests in shares, underlying shares and debentures of the Company and its associated corporations" above, as at 30 June 2018, no other person had interests or short positions in the shares and underlying shares of the Company which were required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Corporate Governance

In the opinion of the Directors, save as mentioned below, the Company had complied with all the code provisions of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 14 to the Listing Rules for 1H18.

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

Model Code for Securities Transactions by Directors

Our Company has adopted the Model Code as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors, our Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code for 1H18.

The Company has also adopted procedures on terms no less exacting than those set out in 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.

Change in Corporate Positions

The Company has the following changes in corporate positions with effect from 16 April 2018:

(i) Mr. LUO Su has resigned as an executive Director; honorary chairman of the Company; chairman of the nomination committee of the Board ("**Nomination Committee**") and a member of the remuneration committee of the Board ("**Remuneration Committee**");

(ii) Mr. LUO Riming has resigned as an executive Director and the chief executive officer of the Company ("**Chief Executive Officer**");

(iii) Mr. LUO Jianfeng has been appointed as an executive Director;

(iv) Mr. ZUO Manlun has been appointed as a non-executive Director and a member of the Nomination Committee;

(v) Mr. LIU Libin has been appointed as chairman of the Nomination Committee; and

(vi) Mr. LIAO Yuqing has been appointed as the Chief Executive Officer and a member of the Remuneration Committee.

The Company has the following changes in corporate positions with effect from 10 May 2018:

(i) Mr. DAI Feng has resigned as an executive Director and the chief financial officer of the Company ("**Chief Financial Officer**"); and

(ii) Ms. ZHANG Li has been appointed as an executive Director and the Chief Financial Officer.

On 7 March 2018, Mr. WONG Siu Ki, the company secretary of the Company passed away. Following the pass away of Mr. WONG, the Company did not meet the requirement under Rule 3.28 of the Listing Rules. On 29 March 2018, the Company appointed Ms. WONG Tik as the company secretary of the Company.

Disclosure of Directors' information under Rule 13.51B(1) of the Listing Rules

Name of Directors	Details of change
Mr. LIAO Yuqing	the amount of remuneration has been increased from RMB800,000 per annum to RMB900,000 per annum for the year ending 31 December 2018
Ms. ZHANG Li	the amount of remuneration has been increased from RMB500,000 per annum to RMB720,000 per annum for the year ending 31 December 2018

Review by the Audit Committee

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

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

The audit committee of the Board has met with the management and external auditors of our Company and has reviewed the consolidated results of our Group for 1H18.

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

Hong Kong, 27 August 2018