

Interim
Report

2020



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)

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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

ZUO Manlun
XIE Jingyun

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
XIE Jingyun

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*)
WANG Zhihua
(*alternate to LIAO Yuqing*)

REGISTERED OFFICE

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Hutchins Drive
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Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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Technology Industrial Park
Sanshui District
Foshan City
Guangdong Province
China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 605, 6/F
Wing On Plaza
62 Mody Road
Tsim Sha Tsui East
Kowloon
Hong Kong

PRINCIPAL BANKERS

Bank of China
Agriculture Bank of China
China Construction Bank
Corporation

LEGAL ADVISER

As to Hong Kong law:

LCH Lawyers LLP

As to Cayman Islands law:

Conyers Dill & Pearman

AUDITORS

KPMG

*Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council
Ordinance*

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

SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Branch Share Registrar and Transfer Office in Hong Kong

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai,
Hong Kong

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INTRODUCTION

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



CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

		Six months ended 30 June	
		2020	2019
	Note	RMB'000	RMB'000
Revenue	3 & 4	4,526,551	4,954,876
Cost of sales	5 & 10	(3,950,294)	(4,326,252)
Gross profit		576,257	628,624
Other income		51,865	30,685
Distribution costs		(143,225)	(111,891)
Administrative expenses		(182,123)	(188,638)
Reversal/(charge) of impairment losses on trade receivables and other receivables		12,522	(15,929)
Profit from operations		315,296	342,851
Finance costs	5(a)	(50,037)	(74,044)
Share of profit of an associate		1,799	4,793
Profit before taxation	5	267,058	273,600
Income tax	6	(16,466)	(39,132)
Profit for the period		250,592	234,468
Attributable to:			
Equity shareholders of the Company		252,761	236,686
Non-controlling interests		(2,169)	(2,218)
Profit for the period		250,592	234,468
Earnings per share	7		
Basic (RMB yuan)		0.60	0.57
Diluted (RMB yuan)		0.60	0.57

The notes on pages 11 to 31 form part of this interim financial report. Details of dividends payable to equity shareholders of the Company are set out in Note 17.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – unaudited

(Expressed in Renminbi)

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

The notes on pages 11 to 31 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – unaudited

(Expressed in Renminbi)

		At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
	<i>Note</i>		
Non-current assets			
Investment property	8	70,636	71,694
Other property, plant and equipment	8	2,168,195	2,188,673
		2,238,831	2,260,367
Right-of-use assets	9	343,239	358,620
Intangible assets		3,985	–
Interest in an associate		–	5,791
Deferred tax assets		45,411	43,641
		2,631,466	2,668,419
Current assets			
Inventories and other contract costs	10	1,278,335	1,134,375
Trade and other receivables	11	3,122,255	3,103,556
Pledged deposits	12	165,332	327,037
Cash and cash equivalents	13	544,262	528,003
		5,110,184	5,092,971
Current liabilities			
Trade and other payables	14	2,518,710	2,738,786
Contract liabilities	15	306,873	164,027
Loans and borrowings	16	1,305,137	1,284,005
Lease liabilities		2,271	6,907
Current taxation		31,400	68,648
		4,164,391	4,262,373
Net current assets		945,793	830,598
Total assets less current liabilities		3,577,259	3,499,017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 30 June 2020 – unaudited
(Expressed in Renminbi)

		At 30 June 2020 RMB'000	At 31 December 2019 <i>RMB'000</i>
	<i>Note</i>		
Non-current liabilities			
Loans and borrowings	16	297,635	414,407
Lease liabilities		7,460	13,921
Deferred income		20,786	20,200
Deferred tax liabilities		17,094	11,609
		<u>342,975</u>	<u>460,137</u>
NET ASSETS		<u>3,234,284</u>	<u>3,038,880</u>
CAPITAL AND RESERVES			
Share capital		3,731	3,731
Reserves		3,228,055	3,034,604
Total equity attributable to equity shareholders of the Company		3,231,786	3,038,335
Non-controlling interests		2,498	545
TOTAL EQUITY		<u>3,234,284</u>	<u>3,038,880</u>

Approved and authorised for issue by the board of directors on 20 August 2020.

Liu Libin
Chairman

Liao Yuqing
Executive Director

The notes on pages 11 to 31 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Note	Attributable to equity shareholders of the Company									Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	Statutory reserves RMB'000	Exchange reserves RMB'000	Hedge reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
Balance at 1 January 2019	3,731	179,568	6,761	209,822	286,942	(461)	-	1,817,747	2,504,110	(252)	2,503,858
Changes in equity for the six months ended 30 June 2019:											
Profit for the period	-	-	-	-	-	-	-	236,686	236,686	(2,218)	234,468
Other comprehensive income	-	-	-	-	-	(371)	-	-	(371)	-	(371)
Total comprehensive income	-	-	-	-	-	(371)	-	236,686	236,315	(2,218)	234,097
Employees' share option scheme	17(b)	-	1,319	-	-	-	-	-	1,319	-	1,319
Capital injection of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	2,300	2,300
Dividends approved and paid to equity shareholders of the Company	17(a)	-	-	-	-	-	-	(73,465)	(73,465)	-	(73,465)
Balance at 30 June 2019 and 1 July 2019	3,731	179,568	8,080	209,822	286,942	(832)	-	1,980,968	2,668,279	(170)	2,668,109
Changes in equity for the six months ended 31 December 2019:											
Profit for the period	-	-	-	-	-	-	-	369,423	369,423	(1,285)	368,138
Other comprehensive income	-	-	-	-	-	(371)	(2)	-	(373)	-	(373)
Total comprehensive income	-	-	-	-	-	(371)	(2)	369,423	369,050	(1,285)	367,765
Employees' share option scheme	-	-	1,006	-	-	-	-	-	1,006	-	1,006
Appropriation to reserves	-	-	-	-	45,536	-	-	(45,536)	-	-	-
Capital injection of non-controlling interest in subsidiaries	-	-	-	-	-	-	-	-	-	2,000	2,000
Balance at 31 December 2019	3,731	179,568	9,086	209,822	332,478	(1,203)	(2)	2,304,855	3,038,335	545	3,038,880
Balance at 1 January 2020	3,731	179,568	9,086	209,822	332,478	(1,203)	(2)	2,304,855	3,038,335	545	3,038,880
Changes in equity for the six months ended 30 June 2020:											
Profit for the period	-	-	-	-	-	-	-	252,761	252,761	(2,169)	250,592
Other comprehensive income	-	-	-	-	-	(83)	55,023	-	54,940	-	54,940
Total comprehensive income	-	-	-	-	-	(83)	55,023	252,761	307,701	(2,169)	305,532
Amounts transferred from hedge reserves to initial carrying amount of hedge items	-	-	-	-	-	-	(8,615)	-	(8,615)	-	(8,615)
Employees' share option scheme	17(b)	-	1,269	-	-	-	-	-	1,269	-	1,269
Capital injection of non-controlling interest in subsidiaries	17(c)	-	-	-	-	-	-	-	-	4,122	4,122
Dividends approved and paid to equity shareholders of the Company	17(a)	-	-	-	-	-	-	(106,904)	(106,904)	-	(106,904)
Balance at 30 June 2020	3,731	179,568	10,355	209,822	332,478	(1,286)	46,406	2,450,712	3,231,786	2,498	3,234,284

The notes on pages 11 to 31 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

		Six months ended 30 June	
	<i>Note</i>	2020 RMB'000	2019 RMB'000
Operating activities			
Cash generated from operations		266,414	434,102
Income tax paid		(57,872)	(58,119)
Land Appreciation Tax paid		(460)	(1,250)
		<hr/>	<hr/>
Net cash generated from operating activities		208,082	374,733
Investing activities			
Interest received		20,072	11,602
Payment for the purchase of property, plant and equipment		(231,929)	(237,819)
Payment for pledged deposits		(607,341)	(512,735)
Proceeds received upon maturity of pledged deposits		769,046	473,419
Payment for deposit of futures contract		(80,000)	–
Proceeds from disposal of property, plant and equipment		30	3,149
		<hr/>	<hr/>
Net cash used in investing activities		(130,122)	(262,384)
Financing activities			
Capital element of lease rentals paid		(2,537)	(401)
Interest element of lease rentals paid		(400)	(221)
Interest paid		(49,688)	(84,046)
Proceeds from loans and borrowings		628,045	1,468,053
Repayment of loans and borrowings		(530,751)	(1,329,223)
Capital injecting from the non-controlling interest of subsidiary		–	2,300
Dividends paid to equity shareholders of the Company		(106,904)	(73,465)
		<hr/>	<hr/>
Net cash used in financing activities		(62,235)	(17,003)
Net increase in cash and cash equivalents		15,725	95,346
Cash and cash equivalents at 1 January	<i>13</i>	528,003	448,787
Effect of foreign exchange rates changes		534	107
		<hr/>	<hr/>
Cash and cash equivalents at 30 June	<i>13</i>	544,262	544,240

The notes on pages 11 to 31 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 authorized for issue on 20 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any 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 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

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 pages 32 and 33.

2 Changes in accounting policies

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

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

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

3 Revenue and segment reporting

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

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

(a) Disaggregation of revenue

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

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

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

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

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

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

	Industrial aluminium profiles		Construction aluminium profiles		Property development		All other segments		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers recognised by point in time	968,494	1,070,592	3,457,194	3,781,875	6,968	16,778	93,895	85,631	4,526,551	4,954,676
Reportable segment profit										
Gross profit	104,353	106,983	439,031	483,885	3,240	9,823	29,633	27,933	576,257	628,624

(c) Reconciliations of reportable segment profit or loss

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

4 Seasonality of operations

The Group's operation on average generally experiences 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. The Group's operation was additionally impacted by COVID-19 pandemic in first quarter of 2020.

For the twelve months ended 30 June 2020, the Group reported revenue of RMB10,852,523,000 (twelve months ended 30 June 2019: RMB10,835,633,000), and gross profit of RMB1,437,445,000 (twelve months ended 30 June 2019: RMB1,467,954,000).

5 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs:

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

(b) Staff costs:

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

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



(c) **Other items:**

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Depreciation charge		
– Investment properties	1,058	–
– Other property, plant and equipment	200,754	156,945
– Right-of-use assets	6,855	4,985
Amortisation cost of intangible assets	137	–
Net foreign exchange loss/(gain)	996	(514)
Net gain on cash flow hedging instruments reclassified from equity	(1,949)	–
Changes in fair value of futures contracts recognised as hedge ineffectiveness	(6,113)	–
Interest income	20,072	11,602
Cost of inventories (i)/(Note 10)	3,950,294	4,326,252
Research and development costs (ii)	200,898	147,488

- (i) During the six months ended 30 June 2020, cost of inventories included RMB186,442,000 relating to depreciation (six months ended 30 June 2019: RMB141,550,000), which amount is also included in the respective total amounts disclosed separately above, and RMB202,544,000 relating to staff costs (six months ended 30 June 2019: RMB193,870,000) as disclosed in Note 5(b).
- (ii) Research and development costs for the period ended 30 June 2020 included RMB54,653,000 (six months ended 30 June 2019: RMB36,954,000) relating to staff costs of employees which amount is also included in total staff costs as disclosed in Note 5(b).

6 Income tax

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

- (i) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC corporate income tax at a rate of 25% for the six months ended 30 June 2020 (six months ended 30 June 2019: 25%) except for Guangdong Xingfa Aluminium Co., Ltd. (“**Guangdong Xingfa**”), Xingfa Aluminium (Chengdu) Co., Ltd. (“**Chengdu Xingfa**”), Guangdong Xingfa Aluminium (Henan) Co., Ltd. (“**Xingfa Henan**”) and Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. (“**Xingfa Jiangxi**”) which were certified as “Advanced and New Technology Enterprises” (“**ANTE**”) and entitled to the preferential income tax rate of 15% for the six months ended 30 June 2020 (six months ended 30 June 2019: 15%).
- (ii) At 30 June 2020, deferred tax liabilities of RMB8,761,000 (that of 2019: RMB11,609,000) have been provided for in this regard based on the expected dividends to be distributed from Guangdong Xingfa in the foreseeable future in respect of the profits generated since 1 January 2008.
- (iii) During the six months ended 30 June 2020, Guangdong Xingfa, Xingfa Henan and Xingfa Jiangxi obtained approval from local tax authorities to claim super deduction on research and development expenses. As such, the income tax for the six months ended 30 June 2020 was reduced by RMB18,002,000 (six months ended 30 June 2019: RMB11,843,000). Such additional tax deduction on research and development expenses equals 75% (2019: 75%) of the amount actually incurred.

7 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

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

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Weighted average number of ordinary shares at 30 June	418,000	418,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (<i>Note 17</i>)	564	–
	418,564	418,000

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

8 **Investment properties and other property, plant and equipment**

During the six months ended 30 June 2020, the Group acquired items of plant and machinery with a cost of RMB180,618,000 (six months ended 30 June 2019: RMB255,265,000). Items of plant and machinery with a net book value of RMB342,000 were disposed of during the six months ended 30 June 2020 (six months ended 30 June 2019: RMB4,986,000), resulting in a loss on disposal of RMB312,000 (six months ended 30 June 2019: RMB1,837,000).

Investment properties of the Group were stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses. Fair value of these investment properties was RMB131,000,000 as at 30 June 2020 (31 December 2019: RMB131,000,000). The valuations of fair value were carried out by an independent firm of surveyors, Jones Lang LaSalle Corporate Appraisal and Advisory Limited, who have staff with recent experiences in the locations and categories of properties being valued.

9 Right-of-use assets

During the six months ended 30 June 2020, the Group entered into a new lease agreement for use of office building and therefore recognised the addition to right-of-use assets of RMB2,336,000 (six months ended 30 June 2019: Nil). Right-of-use assets with a net book value of RMB10,862,000 were disposed of during the six months ended 30 June 2020 due to early termination of lease agreements for plants (six months ended 30 June 2019: Nil).

10 Inventories and other contract costs

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

Note:

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

11 Trade and other receivables

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

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

- (i) Trade debtors and bills receivable are due within 60 days to 180 days from the date of billing. Debtors with balances that are more than 6 months past due are requested to settle all outstanding balances before any further credit is granted.
- (ii) Certain bills receivable with carrying value of RMB893,000 were pledged as securities for bank loans of the Group as at 30 June 2020 (31 December 2019: Nil) (Note 16).
- (iii) As at 30 June 2020, loss allowances of RMB2,275,000 was recognised on other debtors (31 December 2019: RMB2,294,000).

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

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

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

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

- 2) As at 30 June 2020, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those 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.

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

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

12 Pledged deposits

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

13 Cash and cash equivalents

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Cash at bank and in hand	544,262	528,003

14 Trade and other payables

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	833,676	715,231
1 to 3 months	478,351	384,420
3 to 6 months	269,565	583,421
Over 6 months	410,883	415,735
Trade creditors and bills payable	1,992,475	2,098,807
Trade payables	834,397	814,775
Bills payable	1,158,078	1,284,032
Accrued payroll and benefits	143,405	219,521
Other payables and accruals	352,735	392,202
Interest payable	2,158	2,209
Deferred income	27,937	25,349
Financial liabilities measured at amortised cost	2,518,710	2,738,088
Derivative financial instrument – Cross-currency interest rate swap (Note 11(iv))	–	698
	2,518,710	2,738,786

15 Contract liabilities

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

16 Loans and borrowings

Loans and borrowings were repayable as follows:

	At 30 June 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Within 1 year	1,305,137	1,284,005
After 1 year but within 2 years	216,520	349,200
After 2 years but within 5 years	15,855	15,150
After 5 years	65,260	50,057
	297,635	414,407
	1,602,772	1,698,412

At 30 June 2020, the amount of secured or unsecured loans and borrowings were as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Secured bank loans	1,562,772	1,698,412
Unsecured bank loans	40,000	–
	1,602,772	1,698,412

At 30 June 2020, the secured bank loans were secured by the following assets of the Group:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Carrying value of assets:		
Property, plant and equipment	591,048	602,309
Right-of-use assets	333,984	338,118
Bills receivable (<i>Note 11</i>)	893	–
Pledged deposits (<i>Note 12</i>)	–	8,402
	925,925	948,829



17 Capital, reserves and dividends

(a) Dividends

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

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

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

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

(b) Equity settled share-based transactions

On 15 October 2018, 4,180,000 share options were granted for nil consideration to employees of the Company under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the Company. The options will vest after two years to four years from the date of grant and are then exercisable on or before 14 October 2023. The exercise price is HKD5.46, being the weighted average closing price of the Company's ordinary shares immediately before the grant.

No options were exercised during the six months ended 30 June 2020 (2019: Nil).

The Group recognised share option expenses of RMB1,269,000 during the six months ended 30 June 2020 (six month ended 30 June 2019: RMB1,319,000).

(c) Non-controlling interests

During the six months ended 30 June 2020, the non-controlling interest of a subsidiary of the Group, named Guangdong Aoke Aluminium Construction Technology Limited, contributed an intangible asset which was a patent with fair value of RMB4,122,000 as the capital injection to a subsidiary of the Group named Guangdong Xingfa Aoke Architecture Technology Co., Ltd..

18 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

Fair value at 30 June 2020 RMB'000	Fair value measurements as at 30 June 2020 categorised into		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000

Recurring fair value measurement

Financial assets:

Derivative financial instruments:

- Cross-currency interest rate swap	1,045	-	1,045	-
- Futures contracts	91,875	91,875	-	-

Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000

Recurring fair value measurement

Financial liabilities:

Derivative financial instruments:

- Cross-currency interest rate swap	698	-	698	-
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During the six months ended 30 June 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair values of cross-currency interest rate swap contracts are calculated as the present value of the estimated future cash flows based on the terms and maturity of the contract, taking into account the market rates as at the valuation date and features of the swap.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2019 and 30 June 2020 except as disclosed in Note 8.

19 Commitments***Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report***

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Contracted for		
– Purchase of property, plant and equipment for the production base in Chengdu City	8,850	15,879
– Purchase of property, plant and equipment for the production base in Yichun City	19,465	70,492
– Purchase of property, plant and equipment for the production base in Sanshui, Foshan City	195,364	145,894
– Purchase of property, plant and equipment for the production base in Qinyang City	9,811	10,400
	<hr/> 233,490	<hr/> 242,665
Total	233,490	242,665

20 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 2020, the Group sold goods of RMB44,420,000 (six months ended 30 June 2019: RMB60,301,000) to Guangdong Xingfa Curtain Wall, Door & Window Co., Ltd. (“**Xingfa Curtain Wall**”), which is invested by one of the executive directors of the Company.

During the six months ended 30 June 2020, the Group sold goods and service of RMB8,642,000 (six months ended 30 June 2019: RMB21,032,000) to Jiangxi Province Jingxing Aluminium Panel Manufacturing Co., Ltd. (“**Jiangxi Jingxing**”), which is an associate of the Group.

During the period ended 30 June 2020, the Group sold goods and service of RMB14,175,000 (six months ended 30 June 2019: Nil) to China Lesso Group Holdings Limited, a substantial shareholder of the Company, and its subsidiaries (“**China Lesso 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 RMB1,223,000 (31 December 2019: RMB17,756,000), balance due from Jiangxi Jingxing of RMB10,945,000 (31 December 2019: RMB19,308,000), balance due from China Lesso Group of RMB1,889,000 (31 December 2019: RMB6,728,000), balance due to Xingfa Curtain Wall of RMB297,000 (31 December 2019: Nil) and balance due to China Lesso Group of RMB78,000 (31 December 2019: RMB121,000).

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

21 Impacts of COVID-19 pandemic

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments on the Group's businesses and has put in place contingency measures. These contingency measures include but not limited to: assessing the suppliers' readiness; improving the production process, negotiating with distributors on delivery schedule, continuously monitoring the operations of the distributors and strengthening cost control. The Group will keep the contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak of COVID-19 has caused the decrease of the revenue and profit from operation, delays of production and delivery, and impacted certain debtors' repayment schedules as well as inventory turnover in the first half of 2020. The Group's management has set a plan for catching up the delayed schedules above in the remaining financial year ending 2020.



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 31 which comprises the consolidated statement of financial position of Xingfa Aluminium Holdings Limited as of 30 June 2020 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 2020 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

20 August 2020

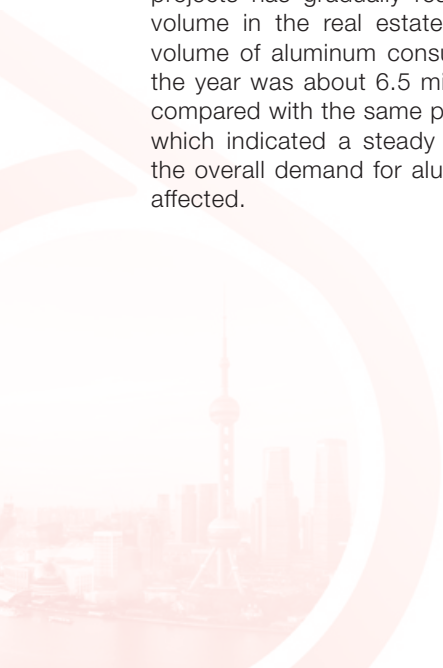


MANAGEMENT DISCUSSION AND ANALYSIS

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

Business Review

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



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

During the period under review, the Group continued to strive to participate in landmark construction projects and was approved to become the main supplier of aluminum profiles for the 2022 Beijing Winter Olympic Games arena, the Chengdu Tianfu International Airport, and the Xiong'an High-speed Railway Station, which had attested the high recognition by the market for the Group's products quality.

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

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

Revenue

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

Construction aluminium profiles

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

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

Industrial aluminium profiles

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

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

Prospect

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

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

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

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

Financial Review

Revenue

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

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

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

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

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

Gross profit and gross profit margin

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

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

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

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

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

Other income

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

Distribution costs

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

Administrative expenses

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

Profit attributable to shareholders of the Company and net profit margin

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

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

Analysis of Financial Position

Current and quick ratios

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

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

Note:

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

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

Gearing ratio

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

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

Note:

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

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

Inventory turnover days

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

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

Note:

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

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

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

Debtors' turnover days

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

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

Note:

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

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

Creditors' turnover days

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

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

Note:

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

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

Loans and borrowings

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

Banking facilities and guarantee

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

No banking facilities were guaranteed by related parties.

Capital structure

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

Financial instruments for hedging purposes

As at 30 June 2020, the Group used aluminium products futures contracts in the Shanghai Futures Exchange to manage the commodity price risk exposure in respect of the highly probable forecast purchase of aluminium products. The Group designates those 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 US dollars and HK dollars. Furthermore, certain trade receivables, trade payables, loans and borrowings and bank balances are denominated in US dollars and HK dollars, therefore exposing the Group to the currency risk of US dollars and HK dollars. During 1H20, the Group has entered into cross-currency interest rate swap contracts to hedge against the interest rate risk and foreign currency risk in respect of certain US dollar short-term loans.

Cash Flow Highlights

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

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

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

As at 30 June 2020, the Group had cash and cash equivalents of RMB544.3 million (31 December 2019: RMB528.0 million), among which 3.3% was held in US dollars, 2.8% was held in HK dollars and the remaining balance was held in RMB.

Property Development

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

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

Subsequent Event

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

Human Resources

As at 30 June 2020, our Group employed a total of approximately 8,210 full time employees in the PRC and Hong Kong which included management staff, technicians, salespersons and workers. In 1H20, our Group's total expenses on the remuneration of employees were approximately RMB345.9 million (1H19: approximately RMB337.8 million), representing approximately 7.6% (1H19: 6.8%) of the revenue of our Group. Our Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees), housing fund, medical insurance, unemployment insurance and other relevant insurance (according to the PRC rules and regulations for PRC employees), discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance. In-house and external training programmes are provided as and when required.



OTHER INFORMATION

Interim Dividend

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

Share Options Scheme

The Company conditionally adopted a share option scheme (“**Share Option Scheme**”) on 29 December 2017. The Share Option Scheme became effective for 10 years commencing from 5 January 2018. Details of outstanding share options and the movements of the share options during the six months ended 30 June 2020 are as follows:

Category of grantees	Date of grant	Outstanding as at 1 January 2020	Exercised during 1H20	Cancelled during 1H20	Lapsed/ expired during 1H20	Outstanding as at 30 June 2020
Directors						
LIU Libin	15.10.2018	229,000	-	-	-	229,000
ZHANG Li	15.10.2018	192,000	-	-	-	192,000
WANG Zhihua	15.10.2018	192,000	-	-	-	192,000
Sub-total		613,000	-	-	-	613,000
Employees of the Group	15.10.2018	3,567,000	-	-	-	3,567,000
Total		4,180,000	-	-	-	4,180,000

No share option was granted, exercised, cancelled or lapsed under the Share Option Scheme during 1H20.

Note:

In relation of each grantee of the share options granted on 15 October 2018, 1,393,334 share options will vest on 15 October 2020, 1,393,333 share options will vest on 15 October 2021 and 1,393,333 share options will vest on 15 October 2022 and the share options vested are then exercisable on or before 14 October 2023. The exercise price per share is HK\$5.46.

Directors' Rights to Acquire Shares or Debt Securities

At no time during 1H20 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 any 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 has maintained sufficient public float as required under the Rules ("**Listing Rules**") Governing the Listing Securities on The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") during the six months ended 30 June 2020.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association, or the applicable 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 1H20.

Material Acquisition and Disposal

For the six months ended 30 June 2020, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

Significant Investment

As at 30 June 2020, the Group did not hold any significant investment with a value of 5% or more of the Group's total assets.

Charges on Group Assets

As at 30 June 2020, property, plant and equipment of the Group in the carrying value of RMB591,048,000 (31 December 2019: RMB602,309,000); right-of-use-assets of the Group in the carrying value of RMB333,984,000 (31 December 2019: RMB338,118,000); and bills receivable of the Group in the carrying value of RMB893,000 (31 December 2019: nil) were charged as security for bank loans amounting to RMB1,562,772,000.

Contingent Liabilities

The Group had no material contingent liabilities as at 30 June 2020.

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

As at 30 June 2020, the interests and short positions of the Directors and chief executives 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

Name of directors	Capacity	Ordinary shares of the Company	Underlying shares of the Company	Percentage of interest in the Company	
				Total	Company
LIAO Yuqing	Founder of a discretionary trust who can influence how the trustee exercises his discretion	48,200,100	–	48,200,100	11.53%
LAW Yung Koon	Beneficial owner	19,050,000	–	19,050,000	4.56%
	Interest of spouse	1,719,000	–	1,719,000	0.41%
LIU Libin	Beneficial owner	–	229,000	229,000	0.05%
ZHANG Li	Beneficial owner	–	192,000	192,000	0.05%
WANG Zhihua	Beneficial owner	–	192,000	192,000	0.05%

Save as disclosed above, as at 30 June 2020, 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 2020, the following persons, other than a Director or the chief 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	Total number of ordinary shares of the Company	Percentage of interest in the Company
Guangxin Aluminium (HK) Limited	Beneficial owner	132,382,000	31.67%
Guangdong Guangxin Holdings Group Ltd*	Interest of controlled corporation	132,382,000	31.67%
State-owned Assets Supervision and Administration Commission of The People's Government of Guangdong Province*	Interest of controlled corporation	132,382,000	31.67%
Lesso Group Holdings Limited	Beneficial owner	109,842,900	26.28%
China Lesso Group Holdings Limited	Interest of controlled corporation	109,842,900	26.28%
New Fortune Star Limited	Interest of controlled corporation	109,842,900	26.28%
Xi Xi Development Limited	Interest of controlled corporation	109,842,900	26.28%
UBS Trustees (B.V.I.) Limited	Interest of controlled corporation	109,842,900	26.28%
WONG Luen Hei	Founder of a discretionary trust who can influence how the trustee exercises his discretion	109,842,900	26.28%
Sure Keen Limited	Beneficial owner	48,200,100	11.53%
Glorious Joy Limited	Interest of controlled corporation	48,200,100	11.53%
TMF (Cayman) Limited	Trustee	48,200,100 (Note)	11.53%

* For identification purpose only

Note:

These Shares are held by Sure Keen Limited, which is directly wholly-owned by Glorious Joy Limited and ultimately owned by TMF (Cayman) Limited, as trustee of a discretionary trust, the settlor of which is Mr. LIAO Yuqing, an executive Director.

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 2020, 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 (“**Corporate Governance Code**”) as set out in Appendix 14 to the Listing Rules for 1H20.

According to the code provision A.1.1 of the Corporate Governance Code, the Board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During 1H20, the Board has held one full board meeting. The Company has deviated from this code provision as the Board has discussed the company matters through exchange of emails and informal meetings among the Directors and has obtained board consent through circulating written resolutions.

Model Code for Securities Transactions by Directors

Our Company has adopted the Model Code as the code of conduct regarding Directors’ securities transactions. After having made specific enquiry with all Directors, our Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code for 1H20.

The Company has also adopted procedures on terms no less exacting than 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.

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 namely, Mr. CHEN Mo, Mr. HO Kwan Yiu and Mr. LAM Ying Hung, Andy ("**Mr. LAM**") and one non-executive Director namely, Ms. XIE Jingyun. Mr. LAM, who has professional qualification and experience in financial matters, serves as the chairman of the audit committee.

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

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

20 August 2020

