

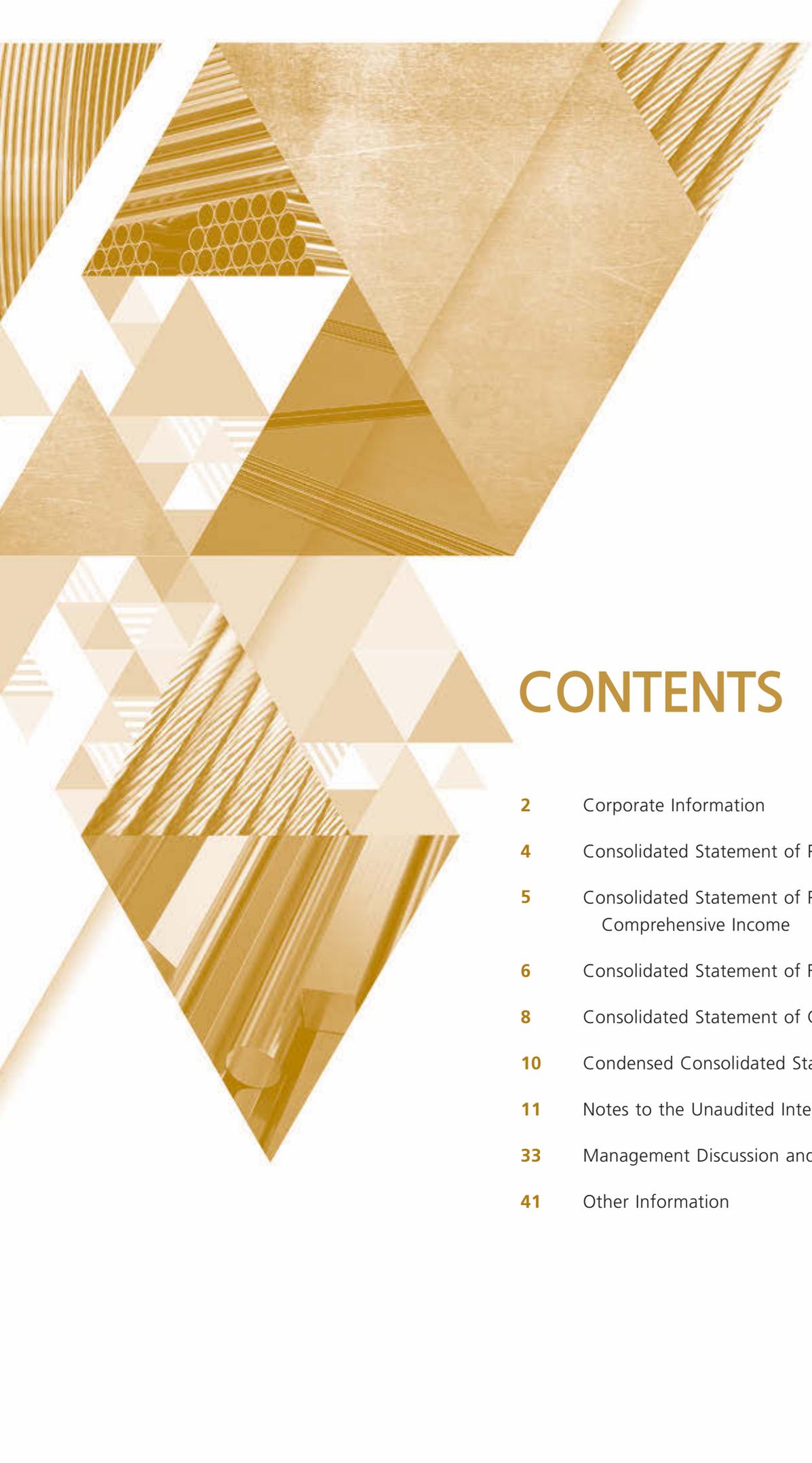


INTERIM REPORT 2021



Xingye Alloy Materials Group Limited
興業合金材料集團有限公司

(formerly known as Huan Yue Interactive Holdings Limited)
(incorporated in the Cayman Islands with limited liability)
Stock Code : 00505



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. HU Changyuan (*Chairman*)
Mr. HU Minglie (*Chief Executive Officer*)
Mr. ZHU Wenjun

Independent Non-Executive Directors

Mr. CHAI Chaoming
Dr. LOU Dong
Ms. LU Hong

Audit Committee

Mr. CHAI Chaoming (*Chairman*)
Ms. LU Hong
Dr. LOU Dong

Remuneration Committee

Dr. LOU Dong (*Chairman*)
Ms. LU Hong
Mr. ZHU Wenjun

Nomination Committee

Mr. CHAI Chaoming (*Chairman*)
Ms. LU Hong
Dr. LOU Dong

COMPANY SECRETARY

Ms. MUI Ngar May, Joel

AUTHORISED REPRESENTATIVES

Mr. ZHU Wenjun
Ms. MUI Ngar May, Joel

PRINCIPAL LEGAL ADVISORS

P.R.C. & Hong Kong

Zhong Lun Law Firm

Cayman Islands

Conyers Dill & Pearman, Cayman

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Corporate Information

PRINCIPAL PLACE OF BUSINESS

Hong Kong

Flat 11, 11/F., Hung Tai Industrial Building
37-39 Hung To Road, Kwun Tong
Kowloon, Hong Kong

PRC (Copper Business)

No. 68, Jin Xi Road
Hangzhou Bay New Zone
Ningbo
Zhejiang Province
315336, PRC

PRC (Online Gaming Business)

No. 31, Jiaan Road
Shenzhen
Guangdong Province
518066, PRC

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
P.O. Box 705
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Agricultural Bank of China
China Construction Bank
Bank of China

COMPANY WEBSITE

www.xingyealloy.com

STOCK CODE

505

Consolidated Statement of Profit or Loss

For the six months ended 30 June 2021 (unaudited)

	Note	Six months ended 30 June	
		2021 RMB'000	2020 RMB'000
Revenue	4	3,167,835	1,950,969
Cost of sales		(2,728,972)	(1,748,521)
Gross profit		438,863	202,448
Other income		7,904	10,826
Distribution expenses		(29,225)	(19,104)
Administrative expenses		(138,828)	(102,473)
Other expenses	5	(59,577)	(37,952)
Profit from operations		219,137	53,745
Finance income		9,941	15,024
Finance costs		(21,829)	(18,238)
Net finance costs	6(a)	(11,888)	(3,214)
Profit before taxation		207,249	50,531
Income tax	7	(44,875)	(7,650)
Profit for the period		162,374	42,881
Attributable to:			
Equity shareholders of the Company		162,138	42,797
Non-controlling interests		236	84
Profit for the period		162,374	42,881
Earnings per share			
– Basic (RMB cents)	8(a)	19.94	5.10
– Diluted (RMB cents)	8(b)	19.88	5.10

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021 (unaudited)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Profit for the period	162,374	42,881
Other comprehensive income for the period (after tax and reclassification adjustments):		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of financial statements of foreign operations	(256)	1,048
Total comprehensive income for the period	162,118	43,929
Attributable to:		
Equity shareholders of the Company	161,882	43,845
Non-controlling interests	236	84
Total comprehensive income for the period	162,118	43,929

Consolidated Statement of Financial Position

As at 30 June 2021 (unaudited)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	9	837,343	817,625
Right-of-use assets		69,809	71,110
Deposits for acquisition of property, plant and equipment		6,457	2,075
Deferred tax assets		16,834	26,290
Other non-current assets		7,490	7,490
		937,933	924,590
Current assets			
Inventories	10	1,222,914	943,668
Trade and other receivables	11	492,048	441,184
Derivative financial instruments		17,213	–
Structured bank depositors		–	5,000
Restricted bank deposits	12	422,412	279,320
Bank deposits with original maturity over three months		144,109	138,150
Cash and cash equivalents		348,357	223,300
		2,647,053	2,030,622
Current liabilities			
Trade and other payables	13	935,638	725,619
Interest-bearing borrowings	14	1,089,751	828,385
Derivative financial instruments		125	21,672
Lease liabilities		1,169	1,146
Income tax payable		23,974	15,298
		2,050,657	1,592,120

Consolidated Statement of Financial Position (Continued)

As at 30 June 2021 (unaudited)

	Note	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Net current assets		596,396	438,502
Total assets less current liabilities		1,534,329	1,363,092
Non-current liabilities			
Interest-bearing borrowings	14	99,000	88,790
Lease liabilities		2,628	3,024
Deferred income		38,026	38,721
Deferred tax liabilities		1,500	1,500
		141,154	132,035
Net assets		1,393,175	1,231,057
Capital and reserves	15		
Share capital		73,676	73,676
Reserves		1,317,103	1,155,221
Total equity attributable to equity shareholders of the Company		1,390,779	1,228,897
Non-controlling interests		2,396	2,160
Total equity		1,393,175	1,231,057

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2021 (unaudited)

	Attributable to equity shareholders of the Company											
	Share capital	Share premium	Capital reserve	PRC			Treasury shares		Retained earnings	Total	Non-controlling interests	Total equity
				statutory reserve	Translation reserve	Share Award Scheme	held for the	Share-based compensation reserve				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2021	73,676	294,461	258,060	83,779	(17,630)	(934)	1,680	535,805	1,228,897	2,160	1,231,057	
Profit for the period	-	-	-	-	-	-	-	162,138	162,138	236	162,374	
Other comprehensive income	-	-	-	-	(256)	-	-	-	(256)	-	(256)	
Total comprehensive income for the period	-	-	-	-	(256)	-	-	162,138	161,882	236	162,118	
As at 30 June 2021	73,676	294,461	258,060	83,779	(17,886)	(934)	1,680	697,943	1,390,779	2,396	1,393,175	

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2021 (unaudited)

	Attributable to equity shareholders of the Company										
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	PRC statutory reserve RMB'000	Translation reserve RMB'000	Treasury shares held for the Share Award Scheme RMB'000	Share-based compensation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2020	77,417	322,514	258,060	85,320	(16,561)	(2,523)	3,348	383,353	1,110,928	1,917	1,112,845
Profit for the period	-	-	-	-	-	-	-	42,797	42,797	84	42,881
Other comprehensive income	-	-	-	-	1,048	-	-	-	1,048	-	1,048
Total comprehensive income for the period	-	-	-	-	1,048	-	-	42,797	43,845	84	43,929
Buy-back and cancell shares of contingent consideration	(3,741)	(28,053)	-	-	-	-	-	-	(31,794)	-	(31,794)
As at 30 June 2020	73,676	294,461	258,060	85,320	15,513	(2,523)	3,348	426,150	1,122,979	2,001	1,124,980

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021 (unaudited)

	Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Operating activities		
Cash (used in)/generated from operations	(93,670)	282,997
Tax paid	(26,743)	(14,869)
Net cash (used in)/generated from operating activities	(120,413)	268,128
Investing activities		
Payment for the purchase of property, plant and equipment and right-of-use assets	(67,608)	(31,085)
Other cash flows arising from investing activities	(3,393)	(151,429)
Net cash used in investing activities	(71,001)	(182,514)
Financing activities		
Proceeds from interest-bearing borrowings	1,118,294	835,848
Repayment of interest-bearing borrowings	(801,739)	(877,156)
Capital element of lease rentals paid	(280)	(518)
Interest element of lease rentals paid	(93)	(35)
Net cash generated/(used in) from financing activities	316,182	(41,861)
Net increase in cash and cash equivalents	124,768	43,753
Cash and cash equivalents at 1 January	223,300	163,150
Effect of movements in exchange rates on cash held	289	1,024
Cash and cash equivalents at 30 June	348,357	207,927

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

1 REPORTING ENTITY AND BACKGROUND INFORMATION

Xingye Alloy Materials Group Limited (the “**Company**”, formerly known as “**Huan Yue Interactive Holdings Limited**”) was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2007 under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 27 December 2007 (the “**Listing Date**”).

The interim financial report as at and for the six months ended 30 June 2021 comprises the Company and its subsidiaries (together referred to as the “**Group**”). The principal activities of the Group are the manufacture and sale of high precision copper plates and strips, trading of raw materials, and provision of processing services. After the acquisition of an online gaming business in August 2016, the Group’s activities also include developing, publishing and operating online games and provision of related services.

2 BASIS OF PREPARATION

The Company’s interim financial report has been prepared in accordance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”) and has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statement. Details of any changes in accounting policies are set out in note 3.

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

This interim financial report contains unaudited condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2020 annual financial statements. The unaudited condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

3 CHANGES IN ACCOUNTING POLICIES

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

- Amendment to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform – phase 2*

None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in the Company’s interim financial report for the six months ended 30 June 2021.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

4 REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

The principal activities of the Group are (i) the manufacture and sales of high precision copper plates and strips, trading of raw materials, provision of processing services; and (ii) developing, publishing and operating online games and provision of related services.

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

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue from contracts with customers within the scope of IFRS15		
Disaggregated by major products or service lines		
Copper products related:		
– Sales of high precision copper plates and strips	2,978,349	1,851,168
– Processing service fees	129,035	72,403
– Trading of raw materials	53,743	18,956
	3,161,127	1,942,527
Online games related:		
– Publishing and operating online games	5,956	7,392
– Others	752	1,050
	6,708	8,442
	3,167,835	1,950,969
Disaggregated by geographical location of customers:		
– Mainland China	2,860,960	1,771,832
– Hong Kong, China	56,154	26,863
– Taiwan, China	51,428	48,050
– Bangladesh	32,713	19,203
– India	25,933	17,830
– Thailand	24,667	16,101
– Vietnam	19,753	3,788
– Other locations	96,227	47,302
	3,167,835	1,950,969

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

4 REVENUE AND SEGMENT REPORTING (Continued)

(a) Disaggregation of revenue (Continued)

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

The Group's customer base is diversified and no single customer contributed over 10% of the total revenue of the Group for both the six months ended 30 June 2021 and 2020.

(b) Segment reporting

The Group manages its businesses by service lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

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

(i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

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

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

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2021 and 2020 are set out below.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

Six months ended 30 June	Copper products		Online games		Total	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Disaggregated by timing of revenue recognition						
Point in time	3,161,127	1,942,527	–	–	3,161,127	1,942,527
Overtime	–	–	6,708	8,442	6,708	8,442
Revenue from external customers	3,161,127	1,942,527	6,708	8,442	3,167,835	1,950,969
Inter-segment revenue	–	227	–	–	–	227
Reportable segment revenue	3,161,127	1,942,754	6,708	8,442	3,167,835	1,951,196
Reportable segment profit/ (loss) before taxation	207,596	44,242	(347)	(1,940)	207,249	42,302
Interest income from bank deposits	7,971	6,100	56	42	8,027	6,142
Net interest expenses	(21,733)	(15,612)	(96)	(34)	(21,829)	(15,646)
Depreciation and amortisation	(53,313)	(50,657)	(482)	(699)	(53,795)	(51,356)
As at 30 June/31 December						
Reportable segment assets	3,522,242	2,898,925	65,073	57,771	3,587,315	2,956,696
Reportable segment liabilities	2,170,168	1,709,413	23,972	16,226	2,194,140	1,725,639

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Revenue		
Reportable segment revenues	3,167,835	1,951,196
Elimination of inter-segment revenue	–	(227)
Consolidated revenue (note 4(a))	3,167,835	1,950,969
Profit before taxation		
Reportable segment profit	207,249	42,302
Other gains or losses:		
– Change in fair values of contingent consideration receivables and contingent consideration payables	–	8,229
Consolidated profit before taxation	207,249	50,531

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

4 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(iii) Reconciliations of reportable segment assets and liabilities

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Assets		
Reportable segment assets	3,587,315	2,956,696
Elimination of inter-segment receivables	(2,329)	(1,484)
Consolidated total assets	3,584,986	2,955,212
Liabilities		
Reportable segment liabilities	2,194,140	1,725,639
Elimination of inter-segment payables	(2,329)	(1,484)
Consolidated total liabilities	2,191,811	1,724,155

5 OTHER EXPENSES

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Credit losses allowance on trade and other receivables	1,620	2,379
Impairment losses on property, plant and equipment	–	1,248
Losses on disposal of property, plant and equipment	–	223
Net losses on derivative financial instruments	57,953	33,935
Others	4	167
	59,577	37,952

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Interest income on bank deposits	8,027	6,142
Change in fair values of contingent consideration receivables and contingent consideration payables	–	8,229
Gains from structured bank deposits	157	653
Net foreign exchange gains	1,757	–
Finance income	9,941	15,024
Interest expenses on interest-bearing borrowings	(22,263)	(15,611)
Interest on lease liabilities	(93)	(35)
Less: interest expenses capitalised*	527	–
Net interest expenses recognised in profit or loss	(21,829)	(15,646)
Net foreign exchange losses	–	(2,592)
Finance costs	(21,829)	(18,238)
Net finance costs	(11,888)	(3,214)

* The borrowing costs were capitalised at rates of 4.30% per annum during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

6 PROFIT BEFORE TAXATION (Continued)

(b) Other items

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Cost of inventories*	2,727,108	1,746,069
Research and development expenses (included in administrative expenses)	86,451	59,395
Depreciation		
– Property, plant and equipment	52,494	49,850
– Right-of-use assets	1,301	1,307
Impairment losses on		
– Trade and other receivables	1,620	2,379
– Property, plant and equipment	–	1,248
Amortisation		
– Intangible assets	–	199
Government grants	6,075	8,500

* Cost of inventories includes depreciation of RMB29,925,000 (six months ended 30 June 2020: RMB32,122,000), which is also included in the total amount of depreciation expenses disclosed separately below.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

7 INCOME TAX

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Current tax		
Provision for the period	33,962	8,212
Under/(over) – provision in respect of prior year	1,457	(8,473)
	35,419	(261)
Deferred tax		
Origination and reversal of temporary differences	9,456	7,911
	44,875	7,650

The provision for PRC Corporate Income Tax is calculated by applying the estimated annual effective rates of taxation that are expected to be applicable to each entity operating in the PRC.

The Group's consolidated effective tax rate for the six months ended 30 June 2021 was 22% (six months ended 30 June 2020: 15%). The increase in the effective tax rate was mainly due to the increase in taxable profits of those subsidiaries that have the higher applicable income tax rate of 25%.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB162,138,000 (six months ended 30 June 2020: RMB42,797,000) and the weighted average number 813,263,173 ordinary shares (six months ended 30 June 2020: 838,887,843 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB162,138,000 (six months ended 30 June 2020: RMB42,797,000) and the weighted average number of ordinary shares outstanding after adjustment of all dilutive potential ordinary shares of 815,397,352 ordinary shares (six months ended 30 June 2020: 839,154,838 ordinary shares).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

9 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment with a cost of RMB72,212,000 in total (six months ended 30 June 2020: RM21,823,000). Items of property, plant and equipment with a net book value of nil were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB349,000), resulting in nil gain or loss on disposal (six months ended 30 June 2020: gain of RMB23,000 and loss of RMB223,000).

10 INVENTORIES

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Raw materials	379,795	191,813
Work in progress	682,531	622,302
Finished goods	160,496	129,468
Others	92	85
	1,222,914	943,668

Provisions of RMB6,378,000 (31 December 2020: RMB7,386,000) were made against those inventories with net realisable value lower than carrying value as at 30 June 2021. Except for the above, none of the inventories as at 30 June 2021 were carried at net realisable value (2020: Nil).

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

11 TRADE AND OTHER RECEIVABLES

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Trade and bills receivable, net of loss allowance	423,951	378,355
Deposits for metal future contracts	21,140	28,993
Other debtors, net of loss allowance	1,476	660
Financial assets measured at amortised cost	446,567	408,008
VAT recoverable	27,529	5,170
Prepayments	17,952	28,006
	492,048	441,184

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

As at 30 June 2021, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers for settling trade payables of the same amount on a full recourse basis, in the amount of RMB31,241,000 (31 December 2020: RMB68,412,000). In the opinion of the Directors, the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, and accordingly, it continues to recognise the full carrying amounts of these bills receivable and the associated trade payables settled, and has recognised the cash received on the transfer as cash advances under discounted bills.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

11 TRADE AND OTHER RECEIVABLES (Continued)

Ageing analysis

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

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Within 3 months	379,729	353,671
Over 3 months but less than 6 months	22,874	17,520
Over 6 months but less than 1 year	20,790	2,965
Over 1 year	558	4,199
	423,951	378,355

Credit terms granted to customers ranged from 7 to 90 days depending on the customer's relationship with the Group, its creditworthiness and past settlement record.

As at 30 June 2021, the Group's bills receivables with aggregate carrying value of RMB69,409,000 (31 December 2020: RMB108,000,000) were pledged to banks for issuance of bank acceptance bills and raising loans.

12 RESTRICTED BANK DEPOSITS

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Guarantee deposits for issuance of commercial bills	420,150	277,320
Others	2,262	2,000
	422,412	279,320

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

13 TRADE AND OTHER PAYABLES

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Trade and bills payable	790,560	604,109
Staff benefits payable	42,974	43,573
Payables for purchase of property, plant and equipment	31,125	27,214
Accrued expenses and others	17,170	24,616
Financial liabilities measured at amortised cost	881,829	699,512
Contract liabilities	53,809	26,107
	935,638	725,619

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

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Within 3 months	710,228	531,573
Over 3 months but within 6 months	58,893	15,145
Over 6 months but within 1 year	11,086	48,664
Over 1 year	10,353	8,727
	790,560	604,109

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

14 INTEREST-BEARING BORROWINGS

At 30 June 2021, interest-bearing borrowings were repayable based on scheduled repayment dates set out in the underlying loan agreements as follows:

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Current		
Short-term secured bank loans	565,990	466,104
Unsecured bank loans	71,193	39,765
Bank advances under discounted bills	355,277	245,321
Current portion of non-current secured bank loans	97,291	77,195
	1,089,751	828,385
Non-current		
Secured bank loans	99,000	88,790
	1,188,751	917,175

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

14 INTEREST-BEARING BORROWINGS (Continued)

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

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Within 1 year	1,089,751	828,385
Over 1 year but less than 2 years	68,000	88,000
Over 5 years	31,000	790
	1,188,751	917,175

- (ii) The Group's interest-bearing borrowings in the amount of RMB381,100,000 (31 December 2020: RMB464,500,000) are subject to the fulfilment of financial covenants relating to certain of the Group's statement of financial position ratios, as are commonly found in lending arrangements with financial institutions. As at and during the six months ended 30 June 2021, none of these covenants related to drawn down facilities were breached.

- (iii) The secured bank loans as at 30 June 2021 bore interest at rates ranging from 0.32% to 4.79% (31 December 2020: 0.47% to 4.75%) per annum and were pledged by the following assets:

	At 30 June 2021 RMB'000 (unaudited)	At 31 December 2020 RMB'000 (audited)
Carrying amounts of assets:		
Inventories	330,000	330,000
Property, plant and equipment	205,127	221,866
Right-of-use assets	66,060	66,786
Bills receivable	51,017	–
	652,204	618,652

- (iv) Unsecured bank loans as at 30 June 2021 bore interest at rates ranging from 4.13% to 4.35% (31 December 2020: 4.13% to 4.35%) per annum.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

During the period ended 30 June 2021, no dividend was declared or distributed and the Directors of the Company have determined that no dividend will be paid in respect of the interim period.

(b) Share capital

Authorised

	30 June 2021		31 December 2020	
	Number of shares (unaudited)	Amount HKD'000 (unaudited)	Number of shares (audited)	Amount HKD'000 (audited)
Ordinary shares of HKD0.1 each	5,000,000,000	500,000	5,000,000,000	500,000

Ordinary shares issued and fully paid

	30 June 2021			31 December 2020		
	Number of shares '000 (unaudited)	Amount HKD'000 (unaudited)	Equivalent RMB'000 (unaudited)	Number of shares '000 (audited)	Amount HKD'000 (audited)	Equivalent RMB'000 (audited)
At 1 January	814,559	81,459	73,676	855,559	85,556	77,417
Buy-back and cancel shares of contingent consideration	-	-	-	(41,000)	(4,097)	(3,741)
At 30 June/31 December	814,559	81,459	73,676	814,559	81,459	73,676

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

15 CAPITAL, RESERVES AND DIVIDENDS (Continued)

(c) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (which includes all interest-bearing borrowings and lease liabilities as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to equity shareholders of the Company as shown in the consolidated statement of financial position plus net debt. The Group may adjust the amount of dividends paid to equity shareholders, issue new shares, return capital to shareholders or sell assets to reduce debt.

The Group's gearing ratio at the end of the current and previous reporting periods was as follows:

	30 June 2021	31 December 2020
Gearing ratio	37.77%	36.23%

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

16 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 2021 RMB'000 (unaudited)	Fair value measurements as at 30 June 2021 categorised into		
		Level 1 RMB'000 (unaudited)	Level 2 RMB'000 (unaudited)	Level 3 RMB'000 (unaudited)
<i>Assets:</i>				
Derivative financial instruments:				
– Future contracts	17,213	17,213	–	–
<i>Liabilities:</i>				
Derivative financial instruments:				
– Future contracts	(125)	(125)	–	–

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

16 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

	Fair value at	Fair value measurements as at		
	31 December	31 December 2020 categorised into		
	2020	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
	(audited)	(audited)	(audited)	(audited)
Assets:				
Structured bank deposits	5,000	–	5,000	–
Liabilities:				
Derivative financial instruments:				
– Future contracts	(21,672)	(21,672)	–	–

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfer between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(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 are not materially different from their fair values as at the end of reporting period.

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

17 SHARE AWARD SCHEME

On 18 April 2016 (the “**Adoption Date**”), the Company adopted a share award scheme (the “**Share Award Scheme**”), which does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, to recognise and reward the contribution of eligible employees to the growth and development of the Group through an award of the Company’s shares.

The Company has appointed a trustee for administration of the Share Award Scheme (the “**Trustee**”). The principal activity of the Trustee is administrating and holding the Company’s shares for the Share Award Scheme for the benefit of the Company’s eligible employees. Pursuant to the Share Award Scheme, the Company’s shares will be purchased by the Trustee in the market out of cash contributed by the Company and held in the Trust for relevant employees until such shares are vested in the relevant beneficiary in accordance with the provisions of the Share Award Scheme at no cost. The total number of Company’s shares held by the Trustee under the Share Award Scheme will not exceed 20% of the total issued shares of the Company as at the Adoption Date, i.e. 162,223,190 shares.

As at 30 June 2021, the Trustee had purchased 9,477,000 shares (31 December 2020: 9,477,000 shares) of the Company at a total cost (including related transaction costs) of HKD7,967,000 (equivalent to RMB6,884,000) (31 December 2020: HKD7,967,000 (equivalent to RMB6,884,000)).

According to the Resolution of the Administration Committee of the Company on 26 May 2017, 1,000,000 ordinary shares held under the Share Award Scheme were granted to an employee of the Group at nil consideration, with 40%, 30% and 30% of the shares to be vested on 15 June 2017, 15 June 2018 and 15 June 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.7 per share (equivalent to approximately RMB0.62 per share) was determined with reference to the closing price of the Company’s ordinary shares on 26 May 2017.

According to the Resolution of the Board of Directors of the Company on 13 December 2017, 10,060,000 ordinary shares held under the Share Award Scheme were granted to 9 directors (including 3 directors who resigned later) and 91 employees of the Group at nil consideration, with 5,280,000 shares (tranche 1), 2,152,000 shares (tranche 2) and 2,628,000 shares (tranche 3) to be vested on 13 December 2017, 13 December 2018 and 13 December 2019, respectively. The vesting conditions are only subject to the service conditions. The grant date fair value of HKD0.85 per share (equivalent to approximately RMB0.72 per share) was determined with reference to the closing price of the Company’s ordinary shares on 13 December 2017.

According to the Resolution of the Board of Directors of the Company on 13 December 2018, in order to maintain the employment service of the grantees with the Group for a longer term, the vesting of tranche 2 and tranche 3 awarded shares have been postponed for one year to 13 December 2019 and 13 December 2020 (the “**Postponed Vesting Dates**”), respectively.

According to the Resolution of the Board of Directors and the Remuneration Committee of the Company on 26 November 2019, in order to incentivise and encourage the grantees to maintain their employment with the Group, the Postponed Vesting Dates were further postponed for one year to 13 December 2020 and 13 December 2021, respectively. In addition, the vesting of the remaining 300,000 shares granted on 26 May 2017 were also postponed and will be dealt with together with the above tranche 2 and tranche 3.

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

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

17 SHARE AWARD SCHEME (Continued)

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

	2021			2020		
	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB'000</i>	Average purchase price <i>HKD</i>	No. of shares held	Value <i>RMB'000</i>
At 1 January	0.81	1,295,000	934	0.81	3,497,000	2,523
Shares purchased during the period/year	-	-	-	-	-	-
Shares vested during the period/year	-	-	-	-	(2,202,000)	(1,589)
At 30 June/31 December	0.81	1,295,000	934	0.81	1,295,000	934

18 COMMITMENTS

Capital commitments in respect of acquisition of property, plant and equipment at the end of the reporting period not provided for in the consolidated financial statements were as follows:

	At 30 June 2021 <i>RMB'000</i> (unaudited)	At 31 December 2020 <i>RMB'000</i> (audited)
Contracted for	524,552	570,095
	524,552	570,095

Notes to the Unaudited Interim Financial Report

For the six months ended 30 June 2021

19 KEY MANAGEMENT PERSONNEL REMUNERATIONS

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Group. The key management personnel remunerations are as follows:

	Six months ended 30 June	
	2021 RMB'000 (unaudited)	2020 RMB'000 (unaudited)
Short-term employee benefits	1,630	1,886
Post-employee benefits	3	4
	1,633	1,890

20. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Company successfully completed a placing of 85,000,000 new shares (the "Placing") to not less than six independent places at a price of HK\$0.96 per placing share (the "Placing Share") on 29 July 2021, representing (i) a discount of approximately 15.04% to the closing price of approximately HK\$1.13 per Share as quoted on the Stock Exchange on 16 July 2021, being the date of the placing agreement; and (ii) a discount of approximately 15.79% to the average closing price of approximately HK\$1.14 per Share quoted on the Stock Exchange of the five consecutive trading days immediately before 16 July 2021 (details of the placing are set out in the Company's announcements dated 16 July 2021 and 29 July 2021).

The gross and net proceeds from the Placing (after deducting the commission payable to the placing agent and other expenses incurred in the Placing) are approximately HK\$81,600,000 and HK\$79,968,000 respectively. The net issue price is approximately HK\$0.94 per Placing Share. The Company intends to apply the net proceeds from the Placing to its construction of new workshops on the Yongxin* (甬新) G-203# land lot located in Ningbo Hangzhou Bay New Zone, the PRC acquired by the Group in 2019 and for its general working capital.

Management Discussion and Analysis

COPPER PROCESSING BUSINESS

Market and Industry Review

Since 2021, the European and U.S. economies have shown signs of recovery, especially in the U.S., where the monetary and fiscal stimulus policies have improved the employment market, enhanced consumer confidence and significantly increased economic activities. Against the backdrop of the ongoing global pandemic, uncertainties in the recovery of the world economy, and complexity of domestic and foreign environments, China's economy continued to move forward on the track of sustained and stable recovery in the first half of this year, and the economic development showed a strengthening and improving trend while remaining stable.

Throughout the first half of 2021, the global supply of copper ores was in a shortage, and the supply side of upstream raw materials provided strong support for copper price. From a macro perspective, the global currency liquidity was maintained at a satisfactory level, crude oil prices continued to rise, vaccination proceeded rapidly, large-scale infrastructure projects in the U.S. were put on the agenda, and the sharp decline in the U.S. dollar pushed up copper price to a new record high. Subsequently, as concerns about the Federal Reserve's interest rate hikes rose, the U.S. dollar stopped falling and rebounded, and the global supply of copper ores gradually recovered, copper price fell from the high.

In the first half of 2021, the average London Metal Exchange ("LME") monthly and three month copper future prices were USD9,095 per ton and USD9,094 per ton, respectively, up by 65.67% and 65.00% year-on-year, respectively. In the first half of 2021, the average Shanghai Futures Exchange ("SHFE") monthly and three month copper future prices were RMB66,806 per ton and RMB67,174 per ton, respectively, up by 49.96% and 50.51% year-on-year, respectively. The domestic copper price fluctuated in a similar trend with the international market copper price, as evidenced by the fact that the main fluctuation range of the major copper contracts in SHFE was between RMB57,000 per ton and RMB79,000 per ton, with the highest price at RMB78,640 per ton in May 2021. Affected by overseas economic recovery, and thus driving consumption growth and appreciation of RMB, the LME copper price outperformed the SHFE copper price.

Furthermore, in the first half of 2021, the production and operation of China's copper plates and strips processing industry improved overall, as reflected in sufficient and significant sales orders, the increased percentage of companies that were in business in the industry as compared to the previous years, and the significant increase in the production output and capacity utilisation rate as compared with the same period of last year. In the second quarter of this year, the significant increase in raw material prices had a negative and adverse impact on the production of the industry. However, since the second quarter was traditionally the peak season for production and consumption in China, and the Chinese government had issued timely policies to regulate commodity prices, the market confidence for copper plates and strips processing enterprises and end consumers was restored. As a result, the copper plates and strips processing industry and the end consumption in the second quarter of this year maintained an overall rising trend.



Management Discussion and Analysis

Business Review

In the first half of 2021, the Group's copper plates and strips realised a total production output of 77,171 tons and total sales volume of 76,696 tons. Also, the Group's copper plates and strips business realised sales revenue of RMB3,161.1 million, representing an increase of 62.7% as compared to the corresponding period in 2020. In particular, revenue from the sales of copper products amounted to RMB2,978.3 million, revenue from provision of processing services amounted to RMB129.0 million, and revenue from trading amounted to RMB53.8 million, representing an increase of 60.9%, 78.2% and 183.2% as compared to the corresponding period last year, respectively. Moreover, the copper business realised a net profit of RMB162.8 million, representing an increase of 314.2% as compared to the net profit (excluding the change in fair value of contingent consideration receivables and payables) of RMB39.3 million for the corresponding period last year. This was mainly due to the increase in copper price and sales volume.

Business Development

In 2021, the Group mainly focused on the following aspects:

- 1) In terms of market expansion, the Group focused on increasing the sales volume of existing customers and the development of new markets. Also, seizing the opportunity of recurring overseas pandemic, the Group enhanced the continuous expansion of domestic high-end downstream industries, which had originally imported advanced products from foreign competitors, and vigorously expanded into the application fields, such as, electronics, connectors, integrated circuits, automobile electrical appliances, and related industries.
- 2) In terms of product innovation, the Group took import substitution as the direction to continue to deepen the stable yield rate and process curing technology of high-value-added and high-tech products in the first half of this year, made breakthroughs in sample certification of many target customers, and successfully opened supply channels, laying a solid foundation for subsequent increments. At the same time, focusing on the stabilisation of product quality, the Group strove to make quality and technical breakthroughs and strictly implemented process control to prevent the outflow of defective products. In the first half of this year, the return rate of our products decreased significantly, while production and sales volume increased.
- 3) In terms of cost reduction, the Group continuously made promotion on reducing costs, cutting expenditures, improving efficiency, and generating revenue. Production costs were reduced through the substantial increase in total volume and yield rate, as well as the reasonable allocation of production plans. In respect of procurement expansion of renewable raw materials, the Group actively expanded the channels and varieties of scrap copper procurement, made use of national policy support to increase procurement efforts, and explored overseas scrap copper markets to reduce procurement costs.

Management Discussion and Analysis

Outlook

In the current trend of consistently improving economic development in China, especially in the power, electronic information, high-end equipment, integrated circuit, automobile manufacturing and other industries related to the consumption of copper plates and strips (being the state critical focus areas), the development will continue to increase the demand for copper plates and strips. In particular, among which the demand for high-precision copper plates and strips in high-end sectors will continue to grow and it is expected to be beneficial to the Group's copper plates and strips business. However, in the second half of this year, we will still face various unfavorable factors such as recurring global pandemic, high uncertainty over economic growth, and large fluctuation in commodity prices. As such, the Group will strengthen risk control and achieve stable profit growth on the premise of continuously ensuring production and sales volume.

ONLINE GAMING BUSINESS

In August 2016, the Group acquired Funnytime Limited (“**Funnytime**”), which mainly engages in the development, distribution and operation of online games through its wholly-owned subsidiary, Soul Dargon Limited and a series of domestic companies controlled through contractual agreements.

Funnytime achieved total revenue of RMB6.7 million and a net loss of RMB0.4 million for the six months ended 30 June 2021, compared with total revenue of RMB8.4 million and a net loss of RMB4.6 million for the same period of 2020. The decrease in revenue and the net loss incurred are due to the following reasons:

- 1) revenue from existing games shrank and new products were still in the testing phase; and
- 2) Funnytime had less impairment losses on receivables for the six months ended 30 June 2021 as compared with the same period of 2020.

Market and Industry Review

According to the China's Gaming Industry Report from January to June 2021, the actual sales revenue of China's gaming market reached RMB150.493 billion, a year-on-year increase of 7.89%, showing that the industry continued to maintain a relatively stable growth. The number of users reached 667 million, a year-on-year increase of 1.38%, indicating that the growth rate continued to slow down. It can be predicted that with changes in the demographic structure, competition in the gaming market will become more intense in the future, and the requirements for enterprises and products will gradually become strict.

From January to June 2021, the actual sales revenue of China's self-developed online games in the domestic market amounted to RMB130.1 billion, a year-on-year increase of 8.3%, and continued to maintain more than 80% of the domestic market share. From January to June 2021, the actual sales revenue of China's mobile gaming market amounted to RMB114.8 billion, a year-on-year increase of 9.6% and RMB10.1 billion. The number of mobile game users reached 656 million, a year-on-year increase of 1.3%. Despite the slowdown in year-on-year growth, mobile games still dominated the domestic gaming market due to their large user base and easy operation. The actual sales revenue of the terminal-end gaming market was RMB29.9 billion, a year-on-year increase of 6.2%. Stimulated by certain factors such as the relaxation of traffic restrictions on internet bars, the terminal-end market rebounded from the corresponding period last year. The launch of web game products continued to decline, and the actual sales revenue in the market was RMB3.0 billion, a year-on-year decrease of 24.5%. Web games are exiting from the mainstream market, and the downward trend will be difficult to reverse if no new favourable factors arise.



Management Discussion and Analysis

Business Development

Operation Center

Despite the decline in the total revenue from certain mature games including “Art of War and Three Kingdoms (《兵法三國》)” and “Ambition of Three Kingdoms 2 (《三國之志2》)”, each product still could generate average monthly revenue ranging from approximately RMB1.0 million to RMB1.2 million, respectively. On the one hand, the operation team strengthened cooperation with the research and development teams of third-party vendors; on the other hand, it improved user stickiness and stabilised the life cycle and revenue of products through refined operations. At the same time, leveraging the advantages in user data and user needs, the operation team worked with the research and development teams to refine the self-developed products, and provided feedback and suggestions on testing during product development, to ensure good product quality before launching.

Research and Development Center

In the first half of 2021, the Group’s online gaming business continued to enhance research and development, the team size further expanded. The Group committed to improving engine performance, art and sound quality, gameplay innovation and process optimisation of products. During the reporting period, the Group completed the development and the first round of testing of the new mobile game product named “Yi Qi Lai Xiu Xian (《一起來修仙》)”, and achieved good data performance, while the second round of testing and subsequent official public testing are expected to be carried out in the third quarter of 2021. Also, the first version of the new H5 product has completed its development, and it is planned to be tested online in the third quarter of 2021.

Outlook

The Group’s online gaming business will continue to adhere to the strategic orientation of high-quality games to enhance product innovation, stick to the core development strategy of “integration of research and operation”, and make full use of promotion resources, to create a variety of high-quality games from a long-term perspective.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and gross profit

The Group recorded a total sales revenue of RMB3,167.8 million in the reporting period, which increased by 62.4% as compared with that of the corresponding period last year.

The Group's copper business achieved a total revenue of RMB3,161.1 million for the six months ended 30 June 2021, representing an increase of 62.7% compared to RMB1,942.5 million of the corresponding period in 2020. Revenue generated from the sales of high precision copper plates and strips, provision of processing services, and trading of raw materials amounted to RMB2,978.3 million, RMB129.0 million and RMB53.8 million respectively (for the six months ended 30 June 2020: RMB1,851.1 million, RMB72.4 million and RMB19.0 million respectively). For the six months ended 30 June 2021, 94.2%, 4.1% and 1.7% of total revenue were derived from the sales of high precision copper plates and strips, provision of processing services, and trading of raw materials respectively (for the six months ended 30 June 2020: 95.3%, 3.7% and 1.0% respectively). Sales volume of high precision copper plates and strips, provision of processing services, and trading of raw material were 52,065 tons, 24,631 tons and 2,215 tons respectively, making 66.0%, 31.2% and 2.8% of the total.

The Group's online gaming business achieved a revenue of RMB6.7 million for the six months ended 30 June 2021, representing 0.2% of the total revenue (for the six months ended 30 June 2020: RMB8.4 million).

The overall gross margin of the Group's copper business for the reporting period increased to 13.7% from 10.1% of the corresponding period in 2020, which was mainly due to the increase in copper price.

Other income

During the six months ended 30 June 2021, the Group's other income amounted to RMB7.9 million in total, representing a decrease of 26.9% compared to RMB10.8 million of the corresponding period of last year, which was mainly due to a decrease in government grants.

Other expenses

For the six months ended 30 June 2021, the Group recorded other expenses of RMB59.6 million, while other expenses for the corresponding period last year was RMB38.0 million. Such increase was mainly due to more net loss on derivative financial instruments in 2021 (RMB58.0 million) recorded by the Group as compared with 2020 (RMB33.9 million).

Distribution expenses

For the six months ended 30 June 2021, the ratio of distribution expenses to revenue decreased to 0.9% as compared to 1.0% of the corresponding period of last year. This was mainly due to the increase in revenue.



Management Discussion and Analysis

Administrative expenses

For the six months ended 30 June 2021, the Group's administrative expenses increased by 35.4% to RMB138.8 million from RMB102.5 million in the corresponding period of last year, which was attributable to an increase in personnel costs and research and development expenses.

Net finance costs

The Group's net finance costs for the six months ended 30 June 2021 amounted to RMB11.9 million, representing an increase of RMB8.7 million compared to that of RMB3.2 million of the corresponding period of last year. This was mainly because the Group recorded RMB8.2 million on change in fair value of contingent consideration receivables and contingent consideration payables in 2020.

Income tax

For the six months ended 30 June 2021, the Group's income tax expenses was RMB44.9 million (for the six months ended 30 June 2020: RMB7.7 million). The Group's consolidated effective tax rate for the six months ended 30 June 2021 was 22% (for the six months ended 30 June 2020: 15%). The increase in the effective tax rate was mainly due to the increase in taxable profits of those subsidiaries under a higher applicable income tax rate of 25%.

Profit attributable to the shareholders of the Company

The profit attributable to shareholders of the Company for the six months ended 30 June 2021 amounted to RMB162.1 million, representing an increase of RMB119.3 million compared to that of RMB42.8 million of the corresponding period of last year.

Liquidity financial resources and capital structure

As at 30 June 2021, the Group recorded a net current assets of RMB596.4 million, which was primarily because the Group had more inventories.

As a percentage of total interest-bearing borrowings, short-term interest-bearing borrowings represented 91.7% as at 30 June 2021. As at the date of this report, the Group had not experienced any difficulty in raising funds by securing and rolling over the short-term loans borrowed from various banks in the PRC, which were renewed on an annual basis in accordance with local market practice.

The Group is able to generate net cash inflows from operating activities. Also, the Group has good credit standing and relationships with principal lending banks and possesses available undrawn banking facilities of RMB1,319.3 million that will not expire within 12 months from 30 June 2021 (including long term loan facilities amounting to RMB655.0 million effective until 2026) and cash at banks of RMB914.9 million (comprised of restricted bank deposits of RMB422.4 million, bank deposits with original maturity over three months of RMB144.1 million and cash and cash equivalents of RMB348.4 million) respectively. Based on previous experience and the Group's relationships with its principal lending banks, the Board of the Company believes that the Group can roll over the existing short-term bank borrowings upon maturity in the coming year. The Board of the Company is confident that the Group has adequate financial resources to sustain its working capital requirements and meet its foreseeable debt repayment requirements.

Management Discussion and Analysis

As at 30 June 2021, the Group had outstanding bank loans and other borrowings of approximately RMB1,089.8 million, which shall be repaid within 1 year. As at 30 June 2021, 64.1% of the Group's debts was on a secured basis.

The gearing ratio as at 30 June 2021 was 37.8% (31 December 2020: 36.2%), which is calculated as net debt divided by total capital. Net debt is calculated as total debt (including all interest-bearing borrowings and lease liabilities as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity attributable to shareholders of the Company as shown in the consolidated statement of financial position plus net debt.

Charge on assets

As at 30 June 2021, the Group pledged assets with an aggregate carrying value of RMB652.2 million (31 December 2020: RMB618.7 million) to secure bank loans and facilities of the Group.

Capital expenditure

For the six months ended 30 June 2021, the Group has invested approximately RMB67.6 million in purchase of property, plant and equipment. These capital expenditures were largely financed by internal resources and bank borrowings.

Capital commitments

As at 30 June 2021, future capital expenditures, for which the Group had contracted but not provided for, amounted to RMB524.6 million, which is mainly for plant construction and capacity expansion of the Group's copper processing business.

Contingent liabilities

As at 30 June 2021, the Group did not have any significant contingent liabilities.

MARKET RISK

The Group is exposed to various types of market risks, including price risk, interest rate risk and foreign exchange risk.

Price risk

The Group is exposed to raw material price fluctuations. Cathode copper, alloy trimmings, zinc, tin, nickel and other metals are the principal raw materials used in the production of the Group's products. The Group had made such purchases at market prices. In addition, sales of all products of the Group were according to market price, which might fluctuate and were beyond the Group's control. Therefore, fluctuations in the prices of raw materials may have an adverse effect on the results of the Group's operations.

The Group uses its copper futures contracts in SHFE and LME to hedge against fluctuations in copper price. The Group recorded a loss on futures contracts of approximately RMB58.0 million for the six months ended 30 June 2021, which was approximately RMB33.9 million in the corresponding period of last year.



Management Discussion and Analysis

Interest rate risk

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

Foreign exchange risk

The Group's export sales and certain parts of the purchase of raw materials were denominated in foreign currencies, primarily U.S. dollars. Therefore, fluctuations in exchange rates may have an impact on the Group's operating results. The Group has not entered into any foreign exchange contracts to hedge against foreign exchange rate risk as at 30 June 2021. For the reporting period, the Group recorded a net foreign exchange gain of RMB1.8 million, while recording a net loss of RMB2.6 million for the corresponding period of 2020.

EMPLOYEES

As at 30 June 2021, the total number of the Group's employees was 1,452 (31 December 2020: 1,336). Remuneration policies are reviewed periodically to ensure that the Group is offering competitive employment packages to employees. The employees' benefits include salaries, pensions, medical insurance scheme and other applicable social insurance. Promotion and salary increments are assessed in accordance with performance. The Group's business growth depends on its employees' skills and contributions. The Group believes in the important position of human resources in a highly competitive industry and has devoted resources for training its employees. Also, share options may be granted and shares may be awarded to eligible employees of the Group respectively in accordance with the terms of the share option scheme adopted by the Company and share award scheme adopted by the Board of the Company. The Group has established an annual training program for employees so that the new employees can master the basic skills required to perform their duties, and existing employees can enhance or upgrade their skills.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2021, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), which have been notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company were taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 of the Listing Rules, were as follows:

Interest in Long Position in Shares of HK\$0.10 each and Underlying Shares of the Company

Name of Directors	Capacity/Nature of Interest	Number of Shares held	Number of Underlying Shares held	Approximate percentage of shareholding (Note 1)
HU Changyuan	Founder of a discretionary trust/ other Interest	265,200,000 (Note 2)	–	32.56%
	Interest of a controlled corporation/ corporate interest	13,213,000 (Note 3)	–	1.62%
	Beneficial owner/personal Interest	400,000	100,000 (Note 4)	0.06%
HU Minglie	Beneficial owner/personal Interest	3,103,000	500,000 (Note 4)	0.44%
CHAI Chaoming	Beneficial owner/personal Interest	284,000	50,000 (Note 4)	0.04%
LU Hong	Beneficial owner/personal Interest	350,000	50,000 (Note 4)	0.05%
ZHU Wenjun	Beneficial owner/personal interest	400,000	100,000 (Note 4)	0.06%
LOU Dong	Beneficial owner/personal interest	150,000	50,000 (Note 4)	0.02%



Other Information

Notes:

1. The percentages are calculated based on the total issued shares of 814,558,173 as at 30 June 2021.
2. These 265,200,000 shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited as at 30 June 2021. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust which was founded by Mr. HU Changyuan. Mr. HU was deemed to be interested in these shares by virtue of the SFO.
3. These 13,213,000 shares were held by Regency Success Limited, which is 100% controlled by Mr. HU Changyuan. Mr. HU was deemed to be interested in these shares by virtue of the SFO.
4. These underlying shares (unlisted and physically settled) held by Directors are award shares granted to the Directors under the Share Award Scheme on 13 December 2017. The first and second tranches were vested on 13 December 2017 and 18 December 2020, and the rest will be vested on 13 December 2021. Details of the said grant and the extension of vesting dates are set out in the announcements of the Company on 13 December 2017, 13 December 2018 and 26 November 2019 respectively and the movement of shares is set out in note 17 to the unaudited interim financial report.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executive of the Company held or was deemed to hold any interests or short positions in the shares or underlying shares of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or were required to be recorded in the register required to be kept pursuant to section 352 of the SFO, or is otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS FOR ACQUISITION OF SHARES OR DEBENTURES

Other than disclosed in the paragraphs headed “Share Option Scheme” and “Share Award Scheme” below, at no time during the period under review were the Company or its subsidiaries parties to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executive of the Company, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

SHARE OPTION SCHEME

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

The principal terms of the 2016 Share Option Scheme were set out in the published annual report of the Company for the year ended 31 December 2020.

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

SHARE AWARD SCHEME

As announced by the Company on 18 April 2016, the Board resolved to adopt a share award scheme (the “**Share Award Scheme**”) in which Employees may be selected by the Board to participate. The purpose of the Share Award Scheme is to permit the Company to grant Awards to Selected Employees as incentives for their contributions to the Group and to attract suitable personnel for further development of the Group. The maximum number of shares that may be awarded under the Share Award Scheme during its term is limited to 20% of the total issued shares of the Company as at the Adoption Date of 18 April 2016. The maximum number of Awarded Shares that may be granted to any one Selected Employee shall not exceed 5% of the total issued shares of the Company as at the Adoption Date. Pursuant to the Share Award Scheme, shares will be subscribed for at a subscription price as determined by the Board, or purchased on the Stock Exchange, by the trustee at the cost of the Company and will be held by the Trustee on trust for Selected Employee(s) under the Share Award Scheme before vesting. The Share Award Scheme does not constitute a share option scheme pursuant to Chapter 17 of the Listing Rules, and is a discretionary scheme of the Company.

As announced by the Company on 5 May 2016, the maximum number of new shares to be issued by the Company in respect of any financial year of the Company for satisfying the Awarded Shares granted under the Share Award Scheme will be limited to 2% (i.e. 16,222,319 shares) of the total issued shares of the Company as at the Adoption Date. The maximum number of new shares to be issued by the Company in respect of any 12-month period for satisfying the Awarded Shares granted to any one Selected Employee under the Share Award Scheme will not exceed 1% (i.e. 8,111,159 shares) of the total issued shares of the Company as at the Adoption Date.

During the period ended 30 June 2021, no new shares were subscribed by the Trustee, no shares of the Company were acquired by the Trustee pursuant to the rules and trust deed of the Share Award Scheme, no shares were granted to selected employee(s), and no shares were vested under the Share Award Scheme. Accordingly, since the Adoption Date and up to 30 June 2021, there were 1,295,000 shares held in trust under the Share Award Scheme.

As announced by the Company on 13 December 2018, the vesting dates of the awarded shares granted on 13 December 2017 in respect of tranches for 2018 and 2019 were postponed for one year to 13 December 2019 and 13 December 2020, respectively (the “**Postponed Vesting Dates**”). As announced by the Company on 26 November 2019, the Postponed Vesting Dates were further postponed for one year to 13 December 2020 and 13 December 2021, respectively. In addition, the vesting of the remaining 300,000 shares granted on 26 May 2017 was also postponed and will be dealt with together with the remaining awarded shares granted on 13 December 2017.

Movement of the Share Award Scheme is set out in note 17 to the unaudited interim financial report.

Unless otherwise defined in this section, the capitalized terms used in this section shall have the same meanings as those defined in the announcements made by the Company on 18 April 2016, 5 May 2016, 13 December 2018 and 26 November 2019 relating to the Share Award Scheme.

Other Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2021, the following persons or corporations (other than the Directors' interests disclosed in the section headed "Directors' and Chief Executive's Interests in Shares, Underlying Shares and Debenture") had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Number of Underlying Shares	Approximate percentage of shareholding (Note 1)
Luckie Strike Limited	Beneficial owner/Beneficial interest	110,000,000 (L)	–	13.50%
Come Fortune International Limited	Beneficial owner/Beneficial interest	155,200,000 (L)	–	19.05%
Dynamic Empire Holdings Limited (Note 2)	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.56%
Nomura Holdings Inc. (Note 2)	Custodian (other than an exempt custodian interest/other interest)	239,400,000 (L)	–	29.39%
Zedra Trust Company (Singapore) Limited (Note 2)	Trustee (other than a bare trustee)/Other Interest	265,200,000 (L)	–	32.56%
Zedra Malta Limited (Note 3)	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.56%
Zedra Holding SA (Note 3)	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.56%
Zedra SA (Note 3)	Interest of a controlled corporation/Corporate interest	265,200,000 (L)	–	32.56%
Yu Yuesu (Note 4)	Interest of spouse/Family interest	278,813,000 (L)	100,000 (L)	34.24%
bostone Group Limited (Note 5)	Beneficial owner/Beneficial interest	164,812,000 (L)	–	20.23%
Xie Shicai (Note 5)	Interest of a controlled corporation/Corporate interest	187,720,000 (L)	–	23.05%
Ma Jiafeng (Note 5)	Interest of a controlled corporation/Corporate interest	187,720,000 (L)	–	23.05%

Other Information

The letter “S” denotes a short position in the share

The letter “L” denotes a long position in the share

Notes:

1. The percentages are calculated based on the total issued shares of 814,558,173 as at 30 June 2021.
2. The shares were held by Luckie Strike Limited and Come Fortune International Limited which were wholly owned by Dynamic Empire Holdings Limited. The entire issued share capital of Dynamic Empire Holdings Limited was beneficially owned by the Hu Family Trust, the trustee of which was Zedra Trust Company (Singapore) Limited. Dynamic Empire Holdings Limited was deemed to be interested in all the shares in which each of Luckie Strike Limited and Come Fortune International Limited was interested by virtue of the SFO. Zedra Trust Company (Singapore) Limited was deemed to be interested in all the shares in which Dynamic Empire Holdings Limited was interested by virtue of the SFO. The shares registered in the name of Luckie Strike Limited and Come Fortune International Limited were also disclosed as the interest of Mr. HU Changyuan in the section headed “Directors’ and chief executive’s interests in shares, underlying shares and debentures” above.

The custodian of these 239,400,000 shares was Nomura Singapore Limited. Nomura Holdings Inc., through its 100% controlled corporation was interested in these shares which were deemed to be interested by Nomura Singapore Limited as custodian. Nomura Singapore Limited was indirectly wholly-owned by Nomura Holdings Inc.

3. Zedra SA, through its 100% controlled corporations (including Zedra Holding SA and Zedra Malta Limited), was interested in 265,200,000 shares which were deemed to be interested by Zedra Trust Company (Singapore) Limited as trustee. Zedra Trust Company (Singapore) Limited was indirectly wholly owned by Zedra SA. Each of Zedra SA, Zedra Holding SA and Zedra Malta Limited was deemed to be interested in all the shares in which Zedra Trust Company (Singapore) Limited were deemed to be interested by virtue of the SFO.
4. Ms. YU Yuesu was deemed to be interested in these shares and underlying shares under the SFO by virtue of being the spouse of Mr. HU Changyuan. The underlying shares (unlisted and physically settled) represent the awarded shares granted to Mr. HU Changyuan under the Share Award Scheme.
5. As per the notifications filed by Ms. MA Jiafeng (“**Ms. Ma**”) and Mr. XIE Shicai (“**Mr. Xie**”) respectively on 23 April 2021, these 187,720,000 shares comprises (i) 164,812,000 shares held by bostone Group Limited, which in turn controlled by Ms. Ma as to 65.67% and by Mr. Xie as to 34.33% respectively; and (ii) 22,908,000 shares held by Hong Kong Nes International New Energy Limited, which in turn controlled by Mr. Xie as to 34.93%. Both Ms. Ma and Mr. Xie are deemed to be interested in the above shares by virtue of the SFO. To the best knowledge of the Directors, Mr. Xie is the ultimate controlling shareholder of Ningbo Boway Alloy Materials Company Limited, a listed company in Shanghai Stock Exchange (Stock Code: 601137.SH). Ms. Ma is the spouse of Mr. Xie. Ningbo Boway Alloy Materials Company Limited manufactures and sells high-performance, high-precision, non-ferrous alloy bars, wires and plate-strips, and is a direct competitor of the Group’s copper processing business.

Save as disclosed herein, as at 30 June 2021, so far as the Directors are aware, there were no other person, other than the Directors and chief executive of the Company as disclosed above, who had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.



Other Information

AUDIT COMMITTEE

The audit committee of the Board of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the review of the interim results and the interim report for the period under review prepared in accordance with relevant accounting standards.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the period under review.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Board of the Company has adopted the Model Code. Having made specific enquiries of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed shares of the Company in the six months ended 30 June 2021. The Company completed the placing of 85 million new shares under General Mandate (as defined in the announcement dated 16 July 2021) on 29 July 2021. Details of the placing are set out in the Company's announcements dated 16 July 2021 and 29 July 2021.

INTERIM DIVIDEND

The Board of the Company did not declare the payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

To the best of the Directors' knowledge, there is no change of directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the disclosure made in the annual report of the Company for the year ended 31 December 2020 up to the date of this interim report.

By Order of the Board

Xingye Alloy Materials Group Limited

HU Minglie

Chief Executive Officer and Executive Director

Hong Kong, 31 August 2021