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XIMEI RESOURCES HOLDING LIMITED

稀美資源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 9936)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS HIGHLIGHTS

	Six Months ended 30 June		% Changes Increase/ (decrease)
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	
Financial Highlights			
Revenue	317,396	303,487	4.6%
Cost of sales	(222,876)	(219,851)	1.4%
Gross profit	94,520	83,636	13.0%
Gross profit margin	29.8%	27.6%	2.2% points
Profit before tax	44,024	50,431	(12.7)%
Profit for the period	35,253	40,607	(13.2)%
Adjusted profit for the period (excluding Listing expenses)	46,721	44,867	4.1%
Basic earnings per share (in RMB)	0.13	0.18	(27.8)%
Sales volume and Production volume			
Sales volume			
Pentoxide products (tonne) (Note 1)	866.1	681.6	27.1%
Potassium heptafluorotantalate (tonne)	79.3	53.6	47.9%
Production volume			
Pentoxide products (tonne) (Note 1)	820.1	622.3	31.8%
Potassium heptafluorotantalate (tonne)	87.8	59.0	48.8%

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)	% Changes Increase/ (decrease)
Liquidity and Gearing			
Current ratio <i>(Note 2)</i>	2.5	2.5	—
Quick ratio <i>(Note 3)</i>	1.8	1.7	5.9%
Gearing ratio <i>(Note 4)</i>	9.6%	26.4%	(16.8)% points

Notes:

- (1) Pentoxide products refer to Tantalum pentoxide and Niobium pentoxide.
- (2) Current ratio represents total current assets divided by total current liabilities as at the relevant year/period end.
- (3) Quick ratio represents total current assets less inventories divided by total current liabilities as at the relevant year/period end.
- (4) Gearing ratio represents total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of a year/period.

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

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	317,396	303,487
Cost of sales		<u>(222,876)</u>	<u>(219,851)</u>
Gross profit		94,520	83,636
Other income and gains		2,841	5,668
Selling and distribution expenses		(3,262)	(3,174)
Administrative expenses		(34,688)	(27,653)
Listing expenses		(11,468)	(4,260)
Other expenses		(707)	(993)
Finance costs		<u>(3,212)</u>	<u>(2,793)</u>
PROFIT BEFORE TAX	5	44,024	50,431
Income tax expense	6	<u>(8,771)</u>	<u>(9,824)</u>
PROFIT FOR THE PERIOD		<u>35,253</u>	<u>40,607</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic (in RMB)	8	<u>0.13</u>	<u>0.18</u>

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
PROFIT FOR THE PERIOD	<u>35,253</u>	<u>40,607</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(8)</u>	<u>(78)</u>
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements	<u>936</u>	<u>(8)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>928</u>	<u>(86)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>36,181</u>	<u>40,521</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June	31 December
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	90,956	89,530
Right-of-use-assets		25,146	26,017
Prepayments		11,061	11,967
		<u>127,163</u>	<u>127,514</u>
CURRENT ASSETS			
Inventories		184,092	129,879
Trade and bills receivables	10	203,091	169,158
Prepayments, deposits and other receivables		90,992	42,198
Cash and cash equivalents		193,824	58,475
		<u>671,999</u>	<u>399,710</u>
CURRENT LIABILITIES			
Trade payables	11	12,822	17,205
Other payables and accruals		41,433	34,621
Interest-bearing bank borrowings		206,101	103,015
Lease liabilities		1,301	1,229
Tax payable		11,901	7,010
		<u>273,558</u>	<u>163,080</u>
NET CURRENT ASSETS			
		<u>398,441</u>	<u>236,630</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>525,604</u>	<u>364,144</u>

		30 June	31 December
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		34,762	40,247
Lease liabilities		<u>2,673</u>	<u>3,297</u>
Total non-current liabilities		<u>37,435</u>	<u>43,544</u>
Net assets		<u>488,169</u>	<u>320,600</u>
EQUITY			
Share capital	<i>12</i>	2,712	—
Reserves		<u>485,457</u>	<u>320,600</u>
Total equity		<u>488,169</u>	<u>320,600</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The adoption of above revised HKFRSs do not have significant impact to the preparation of the Group’s condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of non-ferrous metal products and provision of processing services to customers. For the purpose of resource allocation and performance assessment, the Group’s management focuses on the operating results of the Group. As such, the Group’s resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The PRC	285,551	278,474
The United States	12,611	12,144
European countries	15,055	2,855
Others	4,179	10,014
	<u>317,396</u>	<u>303,487</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
The PRC	126,124	126,195
Others	1,039	1,319
	<u>127,163</u>	<u>127,514</u>

The non-current assets information above is based on the locations of the assets.

Information about major customers

Revenue derived from the sale of non-ferrous metal products and provision of processing services to customers which accounted for 10% or more of the Group's revenue for the reporting period, are set out below:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Customer A	119,868	60,641
Customer B	45,812	28,885
Customer C	—	45,712
	<u>—</u>	<u>45,712</u>

4. REVENUE

An analysis of revenue is as follows:

Six months ended 30 June

2020 2019

RMB'000 RMB'000

(Unaudited) (Unaudited)

Revenue from contracts with customers

Sale of products	314,959	299,517
Provision of processing services	2,437	3,970
	<u>317,396</u>	<u>303,487</u>

Disaggregate revenue information for revenue from contracts with customers

Six months ended 30 June

2020 2019

RMB'000 RMB'000

(Unaudited) (Unaudited)

Types of goods or services

Sale of products	314,959	299,517
Provision of processing services	2,437	3,970
	<u>317,396</u>	<u>303,487</u>

Total revenue from contracts with customers

Timing of revenue recognition

Goods transferred at a point in time	314,959	299,517
Services rendered over time	2,437	3,970
	<u>317,396</u>	<u>303,487</u>

Total revenue from contracts with customers

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	222,876	219,851
Depreciation of property, plant and equipment	5,880	4,574
Depreciation of right-of-use assets	879	840
Research and development costs	12,345	11,950
Loss on disposal of items of property, plant and equipment	278	169
(Reversal of)/write-down of inventories	(266)	1
Fair value loss on derivative financial instruments	—	439
Foreign exchange differences, net	356	(1,475)

6. INCOME TAX

During the six months ended 30 June 2020, Hong Kong profits tax has been provided on the estimated assessable profits arising in Hong Kong for the Hong Kong subsidiary of the Group, which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. During the six months ended 30 June 2019, no provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong.

Tax on profits assessable in the PRC has been calculated at the applicable PRC corporate income tax ("CIT") rate of 25% during the period (six months ended 30 June 2019: 25%). During the period, Zhiyuan New Material qualified as a high and new technology enterprise and enjoyed a preferential income tax rate at 15% (six months ended 30 June 2019: 15%).

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — The PRC		
Charge for the period	6,815	9,824
Current — Hong Kong		
Charge for the period	1,956	—
Total tax charge for the year	8,771	9,824

7. DIVIDENDS

No dividend has been paid or proposed by the Company during the period (six months ended 30 June 2019: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 270,580,110 (six months ended 30 June 2019: 225,000,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2020 and 2019.

The calculations of basic earnings per share are based on:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company	<u>35,253</u>	<u>40,607</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2019 has been retrospectively adjusted for the effects of the capitalisation issue which took place on 12 March 2020 as stated in note 12 to the condensed consolidated financial statements.

	Number of shares	
	Six months ended 30 June	
	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<u>270,580,110</u>	<u>225,000,000</u>

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired items of property, plant and equipment of RMB7,572,000 (six months ended 30 June 2019: RMB10,390,000). In addition, the Group has written off certain items of property, plant and equipment with an aggregate carrying amount of RMB278,000 (six months ended 30 June 2019: RMB169,000) which was charged to the profit and loss for the period.

10. TRADE AND BILLS RECEIVABLES

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	109,537	115,757
1 to 2 months	66,925	30,251
2 to 3 months	21,263	10,087
Over 3 months	<u>5,366</u>	<u>13,063</u>
	<u>203,091</u>	<u>169,158</u>

11. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 1 month	8,541	13,126
1 to 2 months	2,069	4,077
2 to 3 months	98	2
Over 3 months	<u>2,114</u>	<u>—</u>
	<u>12,822</u>	<u>17,205</u>

12. SHARE CAPITAL

	30 June 2020		31 December 2019	
	HK\$ (Unaudited)	Equivalent to RMB (Unaudited)	HK\$ (Audited)	Equivalent to RMB (Audited)
Issued and fully paid: 300,000,000 (2019: 10) ordinary shares of HK\$0.01 each	<u>3,000,000</u>	<u>2,712,208</u>	<u>0.1</u>	<u>0.09</u>

On 12 March 2020, 300,000,000 new shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Listing”), pursuant to which 224,999,990 shares were issued by the Company to its then existing shareholders by way of capitalisation from the share premium account and 75,000,000 shares were issued by the Company’s initial public offering at the offer price of HK\$2.23 per share. The gross proceeds and the net proceeds amounted to approximately HK\$167.3 million and HK\$105.5 million, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

During the first half of 2020, the world's economic and political position have been under turmoil. Sino-U.S. trade dispute coupled with the novel coronavirus (COVID-19) (the "Epidemic") is shaking the confidence of the manufacturing industry. Facing the unexpected Epidemic, Ximei Resources Holding Limited (the "Company" or "Ximei Resources"), and together with its subsidiaries, the "Group" or "We") adheres to the mindset of "preventing Epidemic, advocating work resumption, keeping operations, masterminding strategies", mobilising the entire personnel to quickly act upon for thorough planning. On one hand, our Group fully prepared for the control and prevention of the Epidemic according to the guidance given by the government and experts, so as to ensure the lives, health and safety of our employees. We also proactively responded to the government's call to fight against the Epidemic by executing the resumption of work and production in an orderly way. On the other hand, following proactive communication with the upstream suppliers and downstream customers, we aimed at timely supply of raw materials and timely implementation of sales orders, and ensured our Group's normal production and operations with its best endeavours. Our Group's business operations have officially resumed on 10 February 2020. Since then, production and operating activities have been back on track rapidly. The Epidemic has only deferred our production by nine days. During such critical times for external business environment, our Group still managed to continue to develop and operate the business, resulting in achieving historic highs in terms of output and sales volume as compared to the corresponding period of 2019, and made the breakthrough. For the six months ended 30 June 2020 (the "Reporting Period"), the total production volume of pentoxide and potassium heptafluorotantalate, which are the principal products of our Group, amounted to approximately 907.9 tonnes, representing an increase of approximately 33.3% as compared to the corresponding period of 2019. The total sales volume of pentoxide and potassium heptafluorotantalate amounted to approximately 945.4 tonnes, representing an increase of approximately 28.6% as compared to the corresponding period of 2019. Our Group has achieved a revenue of approximately RMB317.4 million, representing an increase of approximately 4.6% as compared to the corresponding period of 2019.

BUSINESS REVIEW

Continuous Productivity Improvement, Cost Reduction and Production Process Optimisation

As affected by the Epidemic, labour force was insufficient for the first tier production at the beginning of our resumption of work and production, and we had to face the challenges of meeting production tasks on a timely manner. With our reasonable arrangement on production and operations planning, and our employees' dedication on their positions, the original production plan was well accomplished. During the Reporting Period, the output of industrial grade niobium pentoxide, high-purity niobium pentoxide, industrial grade tantalum pentoxide, high-purity tantalum pentoxide and potassium heptafluorotantalate amounted to approximately 627.8 tonnes, 95.5 tonnes, 94.5 tonnes, 2.3 tonnes and 87.8 tonnes, representing a period increase of approximately 49.0%, a decrease of approximately 25.2%, an increase of approximately 28.8%, N/A¹, and an increase of approximately 48.8%

Note 1: During the first half of 2019, we did not produce high-purity tantalum.

respectively. It is particularly satisfactory that, since March 2020, our Group's output of pentoxide and potassium heptafluorotantalate has continuously reached new highs with a monthly output of over 190 tonnes for a third consecutive month. The single-month output even reached approximately 201.8 tonnes in June 2020, recording the historic highest output for a single month.

Attributable to our continuous technologic improvement and production process optimisation, for the six months ended 30 June 2020, our costs were continuously reduced and operation were more effective, such that our unit cost of product (excluding raw materials) and repairing expenses both dropped as compared to the corresponding period of 2019.

Our Group always places safety and environmental protection as the first priority. During the Reporting Period, safety education training sessions were extensively and continuously organised; operations were strictly executed according to regulations and systems, and safety environmental equipment was reliably operated. During the first half of 2019, a total of 28 safety education training sessions have been organised, achieving a satisfactory result on safety environmental work. Waste was discharged within the limit according to the standards under the national regulations, such that no material safety environmental accidents have been occurred.

Extensive R&D Capabilities with Focus and Professionalism

The Group firmly believes that our R&D capabilities are of utmost importance to our Group's future development. During the Reporting Period, our Group's R&D expenses were approximately RMB12.3 million, accounting for approximately 3.9% of our Group's revenue. Our R&D expenses increased by approximately 2.5% as compared to that in the same period of last year. We insist on using technological innovation as a direction to continuously expand our production capacity through continuous R&D efforts and improving technological processes. Therefore, we are able to increase the output, enhance the purity of our products, strengthen our ability on recycling scraps, and reducing the discharge of waste for the sake of environmental protection.

During the Reporting Period, we have obtained two invention patent licences, and one new utility model patent licence. We have implemented a sewage resource treatment system to achieve the recycling of resources including water, amino and acidity. Through the improvement and optimisation of production processes, we reduce the outflow of sewage. With the sewage being treated and its subsequent economic benefits, an enterprise's social responsibilities towards environmental protection are practicably implemented. Moreover, the extraction production lines for our high purity products have been upgraded and reformed. New extraction technologies have been successfully applied towards the production lines of high purity products, which has reduced the consumption of production materials, decreased the unit cost, further reduce the level of impurities, and enhance product qualities.

Continuous Sales Volume Growth with Initial Success of Market Development

During the six months ended 30 June 2020, despite of the adversity, the total sales volume of pentoxide products and potassium heptafluorotantalate amounted to approximately 945.4 tonnes, representing an increase of approximately 28.6% as compared to the corresponding period of 2019. Specifically, the sales volume of industrial grade niobium pentoxide, high-purity niobium pentoxide, industrial grade tantalum pentoxide, high-purity tantalum pentoxide and potassium heptafluorotantalate amounted to approximately 689.6 tonnes, 79.9 tonnes, 94.4 tonnes, 2.2 tonnes and 79.3 tonnes, representing a period-on-period increase of approximately 53.5%, a decrease of approximately 43.4%, an increase of approximately 5.8%, 6.6%, and 47.8% respectively. The revenue generated amounted to approximately RMB317.4 million, representing an increase of approximately 4.6% as compared to the corresponding period of 2019. The increase of revenue was mainly attributable to the significant increase of revenue from the sales of potassium heptafluorotantalate and niobium pentoxide. Of which, the revenue generated from the sales of potassium heptafluorotantalate amounted to approximately RMB49.7 million, representing a significant increase of approximately 56.8% as compared to the corresponding period of 2019, while the revenue generated from the sales of niobium pentoxide amounted to approximately RMB122.3 million, representing a significant increase of approximately 25.1% as compared to the corresponding period of 2019.

During the Reporting Period, the market development of new products demonstrated initial successful results, with great development made in the areas of crystal-grade products and battery materials. Through our continuous improvement on production technology, the sale of crystal-grade tantalum pentoxide has been sold in scales, with a total sales volume of approximately 2.3 tonnes, representing a significant period-on-period increase of approximately 1,474.7%. After long-term market exploration, the sale of niobium pentoxide, as a material used in production of battery, to the corresponding customers has gradually stabilised and reached approximately 10.0 tonnes, representing a significant period-on-period increase of approximately 364.7%.

During the Reporting Period, as we continued to expand overseas coverage and develop markets, the total overseas sales increased continuously. Our products were sold to countries or regions including the United States, the United Kingdom, Austria, France, Japan, Hong Kong and Taiwan, realising an export sales of approximately RMB31.8 million, representing a period-on-period increase of approximately 27.3% as compared to the corresponding period of 2019. The total overseas sales accounted for approximately 10.0% of our Group's total revenue, as compared to approximately 8.2% in the corresponding period of 2019, realising a stable increase of overseas revenue.

FINANCIAL REVIEW

Revenue

Our revenue comprised revenue generated from sale of products and the provision of processing services. The following table sets forth our total revenue by source for the periods indicated:

	For the six months ended 30 June			
	2020		2019	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(Unaudited)		(Unaudited)	
Sales of products	314,959	99.2%	299,517	98.7%
Provision of processing services	2,437	0.8%	3,970	1.3%
Total revenue	<u>317,396</u>	<u>100.0%</u>	<u>303,487</u>	<u>100.0%</u>

Our total revenue increased by approximately RMB13.9 million or 4.6% from approximately RMB303.5 million for the six months ended 30 June 2019 to approximately RMB317.4 million for the Reporting Period. The increase was mainly due to the increase in revenue generated from sale of products of potassium heptafluorotantalate and niobium pentoxide, partially offset by the decrease in revenue generated from sale of products of tantalum pentoxide and the provision of processing services.

During the six months ended 30 June 2020 and 2019, our products sold included: (i) pentoxide products; (ii) potassium heptafluorotantalate; (iii) recycled products; and (iv) others. Out of the products we sold, pentoxide products accounted for approximately 77.1% and 80.6% of our total revenue during the six months ended 30 June 2020 and 2019, respectively.

Pentoxide Products

For the Reporting Period, our revenue generated from sale of pentoxide products amounted to approximately RMB245.1 million, representing an increase of approximately RMB0.5 million or 0.2% from approximately RMB244.6 million for the six months ended 30 June 2019. Such increase was driven by the increase in revenue from sale of niobium pentoxide.

Potassium Heptafluorotantalate

For the Reporting Period, our revenue generated from sale of potassium heptafluorotantalate amounted to approximately RMB49.7 million, representing a significant increase of approximately RMB18.0 million or 56.8% from approximately RMB31.7 million for the six months ended 30 June 2019. Such increase was mainly due to the increase in sales volume.

Provision of Processing Services

During the Reporting Period, we provided processing services for processing tantalum ores and niobium ores supplied by our customers into pentoxide products and potassium heptafluorotantalate. For the Reporting Period, our revenue generated from the provision of processing services amounted to approximately RMB2.4 million, representing a decrease of approximately RMB1.6 million or 40.0% from approximately RMB4.0 million for the six months ended 30 June 2019. The decrease in revenue from the provision of processing services was mainly because we allocated our production capacity to focus more on production for sale of products than for provision of processing services in view of the higher average selling price for sale of products than that for provision of processing services.

Cost of sales

Cost of sales represented the direct costs of production, which comprised raw materials costs, factory overheads, electricity and fuels costs, labour costs and processing fee in respect of our processed products. For the two periods for the six months ended 30 June 2020 and 2019, our cost of sales amounted to approximately RMB222.9 million and RMB219.9 million, respectively.

Our raw materials costs mainly represented the cost for purchasing tantalum ores and niobium ores, and accounted for approximately 90.4% and 90.9% of our total cost of sales for the Reporting Period and the six months ended 30 June 2019, respectively. Our cost of sales increased by approximately RMB3.0 million or 1.4% from approximately RMB219.9 million for the six months ended 30 June 2019 to approximately RMB222.9 million for the Reporting Period. Such increase was mainly attributable to the increase in purchase volume of raw materials which was in line with the increase in our total production volume and total sales volume.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB10.9 million or 13.0% from approximately RMB83.6 million for the six months ended 30 June 2019 to approximately RMB94.5 million for the Reporting Period, mainly driven by the increase in our sales of product.

Our gross profit margin increased from approximately 27.6% for the six months ended 30 June 2019 to approximately 29.8% for the Reporting Period. Such increase during the Reporting Period was mainly to the change in sales mix which led to the increase in proportion of revenue for the products with higher profit margin.

Other income and gains

Our other income and gains primarily comprised government subsidies, bank interest income, exchange gains and others. We received government grants from local government authorities for engaging in research and development activities. Subsidies vary from year to year.

Our other income and gains decreased by approximately RMB2.9 million from approximately RMB5.7 million for the six months ended 30 June 2019 to approximately RMB2.8 million for the Reporting Period. Such decrease was mainly attributable to the decrease in government grants of approximately RMB1.6 million from approximately RMB3.7 million for the six months ended 30 June 2019 to approximately RMB2.1 million and the decrease in exchange gains of approximately RMB1.5 million for the Reporting Period.

Selling and distribution expenses

Our selling and distribution expenses primarily comprised expenses for transportation and packaging for delivery of products, salaries and benefits for personnel of our sales and procurement department and travelling and entertainment expenses.

Our selling and distribution expenses increased slightly by approximately RMB0.1 million from approximately RMB3.2 million for the six months ended 30 June 2019 to approximately RMB3.3 million for the Reporting Period. Such increase was mainly attributable to the increase in promotion expenses, while partially offset by the decrease in staff costs.

Administrative expenses

Our administrative expenses primarily comprised expenses for research and development expenses, staff costs of our administrative and management staff and Listing expenses.

Our administrative expenses (include Listing expenses) increased by approximately RMB14.2 million from approximately RMB31.9 million for the six months ended 30 June 2019 to approximately RMB46.2 million for the Reporting Period. Such increase was mainly attributable to (i) the increase in Listing expenses of approximately RMB7.2 million from approximately RMB4.2 million for the six months ended 30 June 2019 to approximately RMB11.5 million for the Reporting Period; (ii) the increase in staff costs of approximately RMB4.1 million from approximately RMB6.4 million for the six months ended 30 June 2019 to approximately RMB10.5 million for the Reporting Period; and (iii) the increase in legal advisory and professional fees of approximately RMB2.4 million from approximately RMB1.6 million for the six months ended 30 June 2019 to approximately RMB4.0 million for the Reporting Period.

Our research and development expenses amounted to approximately RMB12.3 million and RMB12.0 million for the Reporting Period and the six months ended 30 June 2019, respectively. Such expenses were primarily used to improve and optimise the production process, especially the extraction production lines in respect of high purity products, and the resource treatment for sewage, to reduce the outflow of sewage and achieve the recycling of resource.

Other expenses

Our other expenses mainly comprised foreign exchange losses, loss arising from changes in the fair value of derivative financial instruments and loss in disposal of fixed assets. Our other expenses decreased by approximately RMB0.3 million from approximately RMB1.0 million for the six months

ended 30 June 2019 to approximately RMB0.7 million for the Reporting Period. Such decrease was mainly due to no loss arising from changes in fair value of derivative financial instruments for the Reporting Period.

Finance costs

Our finance costs mainly represented interest on interest-bearing bank borrowings. Our finance costs for the Reporting Period and the six months ended 30 June 2019 amounted to approximately RMB3.2 million and RMB2.8 million, respectively. The finance costs increased by approximately RMB0.4 million or 14.3% as comparing to that of last year, mainly as a result of the increase in interest-bearing bank borrowings.

Income tax expense

Our Group was accredited as a high and new technology enterprise (高新技術企業) and allowing us to enjoy a lower applicable tax rate of 15%, as compared to 25% pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法). In addition, we enjoyed tax refund at the rate of 9% for our export sales of tantalum bars.

Our income tax expense for the Reporting Period and the six months ended 30 June 2019 amounted to approximately RMB8.8 million and RMB9.8 million, respectively. Our effective tax rate for the Reporting Period and the six months ended 30 June 2019 was approximately 19.9% and 19.5%, respectively. The increase in our effective tax rate was mainly due to increase in expense not deductible for tax. The details are set out in Note 6 to the condensed consolidated financial statements.

Profit for the period

As a result of the foregoing, we recorded net profit for the Reporting Period and the six months ended 30 June 2019 of approximately RMB35.3 million and RMB40.6 million, respectively, representing a decrease of approximately RMB5.3 million. Our net profit margin was approximately 11.1% and 13.4% for Reporting Period and the six months ended 30 June 2019, respectively.

Adjusted profit for the period (excluding Listing expenses)

If Listing expenses were excluded, the adjusted profit for the period increased by approximately RMB1.9 million or 4.1% from approximately RMB44.9 million for the six months ended 30 June 2019 to approximately RMB46.7 million for the Reporting Period.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

During the Reporting Period, we financed our operations by cash generated from operating activities, bank borrowings and net proceeds from the Listing. As at 30 June 2020, we had cash and cash equivalents of approximately RMB193.8 million (as at 31 December 2019: approximately RMB58.5 million). In the future, we intend to finance our operations by cash generated from operating activities, bank borrowings and net proceeds from the Listing.

We monitor our cash flows and cash balance on a regular basis and strive to maintain an optimum liquidity that can meet our working capital needs while supporting a viable business scale and future plans.

Taking into account the financial resources available to us, including our existing cash and cash equivalents, availability of bank facilities, net proceeds from the Listing and cash flows from our operations, our Directors are of the view that, after due and careful inquiry, we have sufficient working capital for at least the next 12 months commencing from the date of this announcement.

Cash flows

During the Reporting Period, the Group's cash and cash equivalents increased by approximately RMB135.3 million, which mainly comprised the net cash outflow used in operating activities with the amount of approximately RMB83.4 million, net cash outflow used in investing activities with the amount of approximately RMB7.4 million, net cash inflow from financing activities with the amount of approximately RMB225.2 million, and the positive effect of foreign exchange rate changes of approximately RMB0.9 million. The net cash inflow from financing activities was mainly from the net proceeds from the Listing and new short term bank borrowings.

CAPITAL STRUCTURE

Indebtedness

The total indebtedness of the Group as at 30 June 2020 was approximately RMB240.9 million (as at 31 December 2019: approximately RMB143.3 million). During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

Gearing ratio

As at 30 June 2020, the Group's gearing ratio was approximately 9.6% (as at 31 December 2019: 26.4%), calculated as the total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of the relevant period multiplied by 100%. The decrease was mainly due to an increase in cash and cash equivalents and an increase in total equity as at the end of the Reporting Period.

Pledge of assets

As at 30 June 2020, our bank borrowings were secured by the pledge of certain of our Group's leasehold land and property, plant and equipment with aggregate carrying amounts of approximately RMB5.9 million and RMB52.2 million, respectively.

As at 31 December 2019, our borrowings were secured by the pledge of certain of our Group's leasehold land with an aggregate carrying amount of approximately RMB9.5 million.

Capital expenditures

Our capital expenditures primarily comprised expenditures for purchases of property, plant and equipment. Our capital expenditures amounted to approximately RMB7.6 million and RMB10.4 million for the Reporting Period and the six months ended 30 June 2019, respectively.

Our current plan with respect to future capital expenditures is subject to changes based on the evolution of our business plan, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 30 June 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings (as at 31 December 2019: nil).

CAPITAL COMMITMENT

As at 30 June 2020, the Group had capital commitment of approximately RMB0.3 million (as at 31 December 2019: approximately RMB5.1 million).

SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sale of metallurgical products and provision of processing services to customers. For the purpose of resource allocation and performance assessment, the Group's management focuses on the operating results of the Group. As such, the Group's resources are integrated and no discrete operating segment information is available. Accordingly, no operating segment information is presented.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the six months ended 30 June 2020, the Group had not made any material acquisition or disposal.

SIGNIFICANT INVESTMENTS

The Company had not held any significant investments during the six months ended 30 June 2020.

PROSPECTS

The negative influence from Epidemic will remain. The Sino-US trade disputes is expected to continue, and the manufacturing industry is still facing severe challenges. However, the end use of tantalum- and niobium-based metallurgical products, such as high-end electronics industry and superconducting materials industry, are still expected to continue its rapid development, and the demand for high-purity tantalum- and niobium-based metallurgical products will also continue to grow. Meanwhile, as China increased its investment on the R&D for new materials, the innovative applications of tantalum- and niobium-based metallurgical products will increasingly emerge, the application areas will be extended accordingly. Our Group has thus proposed three major operation strategies of “enhancing the scale, enhancing the quality, and enhancing profits”, to prepare for the increasing future market demands, and solidify our industry competitive advantages.

Enhancing the Scale

Our Group will continue to expand the output of the principal products, pentoxide products, invest R&D resources consistently to optimise the entire production process, improve production efficiency, and enhance production scale to further strengthen our production and operation capabilities, especially our capability to process intractable and complicated raw materials such as tantalum ores, niobium ores, ferro niobium tantalum alloy, and hard alloy waste materials, so as to maintain our leading position in the industry. While consolidating our grip of advantageous assets, we will extend our industrial chain, explore the production and manufacturing of our downstream products, tantalum powder and tantalum bar, and make a steady progress in the construction of tantalum powder and tantalum bar projects, in which they are situated in Guangdong Qingyuan Overseas Chinese Industrial Park. Meanwhile, we will also steadily implement the high-purity tantalum- and niobium-based products project in Southwest Guizhou Autonomous Prefecture. We also plan to establish project companies in Guizhou Province to set up plants and operate business.

Enhancing the Quality

We are firmly believe deeply convinced that product quality is of utmost importance to maintain our leading position in the industry. Our Group will continue to invest R&D resources, strengthen our strategic cooperation with Chinese Academy of Sciences and Guangdong Academy of Sciences, while fully utilising the resources of the university higher college from our cooperation with Central South University. We make continuous reformation in production technologies, improve the purity of pentoxide and potassium heptafluorotantalate, and continuously improve the level of impurities control to guarantee the product quality and improve customer satisfaction.

Enhancing the Profit

While enhancing the production scale, we will also continue to invest resources to develop the markets, including exploring oversea markets. We plan to set up an office in the United Kingdom, and further explore European markets to increase our sales volume in the European regions. Meanwhile, we will also expand the channels to access raw materials, and plan to set up an office in Brazil to guarantee steady supply of raw materials while stepping up procurement efficiency and reducing procurement costs. We will continue to improve and optimise our production equipment, reduce energy consumption and unit maintenance costs. We will optimise talent structure and improve the skills and capabilities of employees; to lower unit costs.

Under the general environment of uncertain economic situation at present, our Group will continue to maintain strategic stability, adopt solid operation strategies, consistently improve our Group's governance level and risk prevention capability, create long-term values for our shareholders, and achieve our Group's mission of "developing rare resources, and creating a better world".

HUMAN RESOURCES AND TRAINING

We believe that our long-term growth depends on the expertise and experience of our employees. We primarily recruit our personnel through campus recruiting, career fairs, recruitment websites and internal recommendation. We provide regular training programmes to our employees, including, among others, introductory training, safety training and technical training, to enhance their skill and knowledge.

The salaries of our employees depend mainly on their position, nature of work and results of their annual performance evaluation. For employees of our PRC subsidiary, we made contributions to social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance, and housing provident funds for our employees in accordance with applicable PRC laws and regulations. We have established a labour union that aims to protect our employees' legal rights, assist us in attaining our economic objectives and encourage employees to participate in management decisions.

DIVIDENDS

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

OTHER INFORMATION

Corporate Reorganisation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 26 May 2017. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the Listing of the Company's shares (the "Shares") on the Main Board of the Stock Exchange, the Company has become the holding company of our Group for the purpose of the Listing and holds the entire interests of three subsidiaries, namely, Xinjia Seychelles, Xite Hong Kong and Zhiyuan New Material. The Shares were listed on the Main Board of the Stock Exchange on 12 March 2020.

Principal Activities

The Company is an investment holding company. During the Reporting Period, the Company's subsidiaries were principally engaged in the manufacture and sale of non-ferrous metal products and provision of processing services to customer.

PUBLIC FLOAT

According to the information disclosed publicly and as far as the Directors are aware, upon Listing on the Main Board of the Stock Exchange on 12 March 2020 and up to the date of this announcement, at least 25% of the issued shares of the Company was held by public shareholders as required under the Listing Rules.

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

Upon the Listing on the Main Board of the Stock Exchange on 12 March 2020 ("Listing Date") and up to the date of this announcement, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

USE OF NET PROCEEDS FROM THE LISTING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the placing of the shares based on the latest information were revised from approximately RMB109.5 million, as disclosed in the Company’s annual report for the year ended 31 December 2019, to approximately RMB92.7 million (equivalent to approximately HK\$105.5 million), after deduction of the underwriting commission and relevant expenses. As at 30 June 2020, the Group had used net proceeds of approximately RMB0.1 million. The following table illustrates the status of the use of net proceeds according to the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated 26 February 2020 (“**Prospectus**”) as at 30 June 2020:

		Planned use of proceeds as disclosed in the Prospectus (RMB million)	Actual utilised amount as at 30 June 2020 (RMB million)	Unutilised amount as at 30 June 2020 (RMB million)
	%			
Construction of new production facilities to produce tantalum powder and bars	28.9%	26.8	—	26.8
Acquisition and installing of machinery and equipment to produce tantalum powder and bars	36.0%	33.4	—	33.4
Other expense for setting up the new production facilities	3.9%	3.6	—	3.6
Financing five research and development projects	17.9%	16.6	—	16.6
Strengthening the sales network in Europe and sourcing channels in Brazil	3.5%	3.2	0.1	3.1
General working capital	9.8%	9.1	—	9.1
Total	100.0%	92.7	0.1	92.6

The unutilised amount of net proceeds of approximately RMB92.6 million is expected to be completely utilised by June 2022.

CORPORATE GOVERNANCE FUNCTIONS

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), and adopted various measures to enhance the internal control system, the Directors’ continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practises with reference to local and international standards.

Throughout the period since the Listing Date and up to the date of this announcement, the Company has complied with the code provisions, other than code provisions A.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Wu Lijue is our chairman and also the chief executive officer of our Company and he has been managing our Group’s business and supervising the overall operations of our Group since its establishment. Having considered (i) the nature and extent of our Group’s operations; (ii) Mr. Wu’s in-depth knowledge and experience in the tantalum and niobium metallurgy industry and familiarity with the operations of our Group which is beneficial to the management and business development of our Group; and (iii) all major decisions are made in consultation with members of our Board and relevant Board committees, which consist of three independent non-executive Directors on our Board offering independent perspectives, our Board is therefore of the view that there are adequate safeguards in place to ensure sufficient balance of powers and authorities between our Board and the management of our Company and that it is in the best interest of our Group to have Mr. Wu taking up both roles. Our Board will continue to review and consider splitting the roles of the chairman of our Board and the chief executive officer at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Specific enquiries have been made to all Directors and all Directors have confirmed that they have fully complied with the required standard of dealings as set out in the Model Code since the Listing Date and up to the date of this announcement.

REVIEW BY AUDIT COMMITTEE

We have established an audit committee (the “Audit Committee”) on 19 February 2020 with written terms of reference in compliance with Rule 3.21 of the Listing Rules.

Our Audit Committee has three members, namely Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng, all of whom are our independent non-executive Directors. Mr. Lau Kwok Fai Patrick, who has appropriate professional qualifications and experience in accounting matters, has been appointed as the chairman of the Audit Committee.

The financial information in this interim results announcement has not been audited by the auditor of the Company. The Audit Committee has reviewed the unaudited financial statements, this results announcement and the interim report of the Company for the six months ended 30 June 2020 with the management of the Group and agreed with the accounting treatments adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim results announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the Reporting Period as at the date of this announcement.

DISCLOSURE OF INFORMATION

The interim results announcement for the six months ended 30 June 2020 is published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) under “Listed Company Information” and the website of the Company (<http://www.zhiyuanm.com>). The interim report for 2020 will be sent to shareholders of the Company in due course, and will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkexnews.hk>) under “Listed Company Information” and the website of the Company (<http://www.zhiyuanm.com>) under “Investor Relations”.

By order of the Board
Ximei Resources Holding Limited
Wu Lijue
Chairman and Executive Director

Hong Kong, 28 August 2020

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Wu Lijue, Ms. Wu Shandan; one non-executive Director, namely Mr. Zeng Min; and three independent non-executive Directors, namely Mr. Lau Kwok Fai Patrick, Mr. Zhong Hui and Mr. Yin Fusheng.