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## **China Hongqiao Group Limited**

**中國宏橋集團有限公司**

*(incorporated under the laws of Cayman Islands with limited liability)*

**(Stock Code: 1378)**

### **ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **RESULTS HIGHLIGHTS**

- Revenue increased by approximately 56.1% to approximately RMB23,626.0 million as compared with the previous year
- Gross profit increased by approximately 42.4% to approximately RMB8,176.4 million as compared with the previous year
- Net profit attributable to owners of the Company increased by approximately 40.0% to approximately RMB5,875.4 million as compared with the previous year
- Basic earnings per share increased by approximately 22.6% as compared with the previous year and were approximately RMB1.03
- Proposed final dividend of HK\$32.0 cents per share

The board of directors (the “Board”) of China Hongqiao Group Limited (the “Company” or “China Hongqiao”) is pleased to announce the annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2011.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Continuing operations			
Revenue	3	23,626,031	15,131,591
Cost of sales		(15,449,645)	(9,389,722)
Gross profit		8,176,386	5,741,869
Other income and gain and loss	4	311,960	210,535
Distribution and selling expenses		(44,054)	(19,977)
Administrative expenses		(167,033)	(112,038)
Finance costs	5	(300,819)	(192,990)
Other expenses		(22,569)	(42,815)
Profit before taxation	6	7,953,871	5,584,584
Income tax expenses	7	(2,078,461)	(1,395,868)
Profit for the year from continuing operations		5,875,410	4,188,716
Discontinued operations			
Profit for the year from discontinued operations		–	31,515
		5,875,410	4,220,231
Profit and total comprehensive income attributable to owners of the Company			
from continuing operations		5,875,410	4,164,853
from discontinued operations		–	30,885
Profit and total comprehensive income attributable to owners of the Company		5,875,410	4,195,738
Profit and total comprehensive income attributable to non-controlling interests			
from continuing operations		–	23,863
from discontinued operations		–	630
Profit and total comprehensive income attributable to non-controlling interests		–	24,493
		5,875,410	4,220,231
Earnings per share			
From continuing and discontinued operations			
Basic	8	1.03	0.84
From continuing operations			
Basic	8	1.03	0.83
From discontinued operations			
Basic	8	–	0.01

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	<i>Notes</i>	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>16,424,458</b>	8,111,661
Prepaid lease payments – non-current portion		<b>937,128</b>	153,129
Deferred tax assets		<b>43,616</b>	40,231
Deposits paid for acquisition of property, plant and equipment		<b>1,400,011</b>	120,314
		<b>18,805,213</b>	8,425,335
<b>Current assets</b>			
Prepaid lease payments – current portion		<b>19,726</b>	3,015
Inventories		<b>1,908,646</b>	1,122,100
Trade receivables	<i>10</i>	<b>1,438</b>	3,716
Bills receivable		<b>1,312,960</b>	882,570
Prepayments and other receivables		<b>121,802</b>	156,741
Restricted bank deposits	<i>11</i>	<b>14,468</b>	82,650
Bank balances and cash	<i>11</i>	<b>7,484,795</b>	2,669,569
		<b>10,863,835</b>	4,920,361
<b>Current liabilities</b>			
Trade payables	<i>12</i>	<b>1,216,259</b>	682,429
Other payables	<i>13</i>	<b>2,644,583</b>	1,168,902
Income tax payable		<b>137,879</b>	157,974
Bank borrowings – due within one year		<b>3,210,610</b>	72,850
		<b>7,209,331</b>	2,082,155
Net Current Assets		<b>3,654,504</b>	2,838,206
Total Assets less Current Liabilities		<b>22,459,717</b>	11,263,541
<b>Capital and Reserves</b>			
Share capital	<i>15</i>	<b>386,206</b>	69
Reserves		<b>18,010,828</b>	7,302,472
Total Equity		<b>18,397,034</b>	7,302,541
<b>Non-current Liabilities</b>			
Bank borrowings – due after one year		<b>3,981,593</b>	3,961,000
Deferred tax liabilities		<b>81,090</b>	–
		<b>4,062,683</b>	3,961,000
		<b>22,459,717</b>	11,263,541

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

### Attributable to owners of the Company

	Paid in capital/ Share capital	Share premium	Capital reserve	Statutory surplus reserve	Retained earnings	Subtotal	Non- controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	114,398	–	–	597,792	2,372,351	3,084,541	62,950	3,147,491
Profit and total comprehensive income for the year	–	–	–	–	4,195,738	4,195,738	24,493	4,220,231
Capitalisation of retained earnings	656,758	–	–	–	(656,758)	–	–	–
Issue of shares	1	–	–	–	–	1	–	1
Reorganisation	(771,088)	–	771,088	–	–	–	–	–
Acquisition of additional interests in a subsidiary	–	–	22,261	–	–	22,261	(87,443)	(65,182)
Transfer to reserves	–	–	–	430,868	(430,868)	–	–	–
At 31 December 2010	69	–	793,349	1,028,660	5,480,463	7,302,541	–	7,302,541
Profit and total comprehensive income for the year	–	–	–	–	5,875,410	5,875,410	–	5,875,410
Capitalisation of share premium	328,059	(328,059)	–	–	–	–	–	–
Issue of shares	58,078	5,306,954	–	–	–	5,365,032	–	5,365,032
Transaction costs attributable to issue of shares	–	(145,949)	–	–	–	(145,949)	–	(145,949)
Transfer to reserves	–	–	–	820,824	(820,824)	–	–	–
At 31 December 2011	<u>386,206</u>	<u>4,832,946</u>	<u>793,349</u>	<u>1,849,484</u>	<u>10,535,049</u>	<u>18,397,034</u>	<u>–</u>	<u>18,397,034</u>

## CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2011

	<i>Notes</i>	<b>2011</b> <b>RMB'000</b>	2010 <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>5,875,410</b>	4,220,231
Adjustments for:			
Interest income		<b>(11,156)</b>	(8,639)
Income tax expense		<b>2,078,461</b>	1,395,868
Finance costs		<b>300,819</b>	192,990
Depreciation of property, plant and equipment		<b>840,736</b>	598,813
Amortisation of prepaid lease payments		<b>7,611</b>	2,268
Gain on disposal of Marine Chemical Business		–	(6,620)
Gain on disposal of Dyeing Business		–	(24,895)
		<hr/>	<hr/>
Operating cash flows before movements in working capital		<b>9,091,881</b>	6,370,016
Increase in inventories		<b>(786,546)</b>	(575,723)
(Increase) decrease in receivables, deposits and prepayments		<b>(393,173)</b>	675,595
Decrease in payables, deposits received and accrued charges		<b>(261,232)</b>	(534,331)
		<hr/>	<hr/>
Cash generated from operations		<b>7,650,930</b>	5,935,557
Income tax paid		<b>(2,020,851)</b>	(1,168,211)
		<hr/>	<hr/>
Net cash generated from operating activities		<b>5,630,079</b>	4,767,346
		<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment and deposit for acquisition of property, plant and equipment		<b>(8,169,372)</b>	(2,715,082)
Addition to prepaid lease payments		<b>(808,321)</b>	(123,730)
Acquisition of a subsidiary		–	(176,013)
Interest received		<b>11,156</b>	8,639
Disposal of a subsidiary		–	514,188
Placement of restricted bank deposits		<b>(15,527)</b>	(192,853)
Withdraw of restricted bank deposits		<b>83,709</b>	870,849
		<hr/>	<hr/>
Net cash used in investing activities		<b>(8,898,355)</b>	(1,814,002)
		<hr/>	<hr/>

<i>Notes</i>	<b>2011</b> <b><i>RMB'000</i></b>	2010 <i>RMB'000</i>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	<b>5,365,032</b>	1
Shares issue expenses paid	<b>(145,949)</b>	–
New bank borrowings raised	<b>4,614,895</b>	4,334,441
Repayment of bank borrowings	<b>(1,456,542)</b>	(1,394,083)
New other borrowings raised	–	71,831
Repayment to other borrowings	–	(71,831)
Acquisition of additional interests in a subsidiary	–	(65,182)
Interest paid	<b>(293,934)</b>	(192,990)
Advance from related parties	–	4,470,837
Repayment to related parties	–	(7,965,744)
	<hr/>	<hr/>
Net cash generated from (used in) financing activities	<b>8,083,502</b>	(812,720)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>4,815,226</b>	2,140,624
Cash and cash equivalents at beginning of the year	<b>2,669,569</b>	528,945
	<hr/>	<hr/>
Cash and cash equivalents at end of the year, represented by bank balances and cash	<b>7,484,795</b>	2,669,569
	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2011*

## 1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its parent and ultimate holding company is China Hongqiao Holdings Limited (“Hongqiao Holdings”). Hongqiao Holdings is ultimately controlled by Mr. Zhang Shiping (“Mr. Zhang”), incorporated in the British Virgin Islands (“BVI”). The registered office of the Company is Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands, and the principal place of business of the Company is Huixian One Road, Zouping Economic Development District, Zouping County, Shandong Province, the People’s Republic of China (“PRC”).

Prior to the reorganisation as described below (the “Reorganisation”), the operations of manufacture and sales of aluminum products and other businesses were carried out by Shandong Hongqiao New Material Co., Ltd. (“Shandong Hongqiao”) and its subsidiaries. Shandong Hongqiao and its subsidiaries were also engaged in the business of manufacture and sales of dyed fabric and yarn-dyed denim (“Dyeing Business”) and manufacture and sales of caustic soda products (“Marine Chemical Business”) which were discontinued since 4 January 2010 and 1 January 2010, respectively.

Pursuant to the Reorganisation in March 2010, (1) the Company was incorporated and owned by Hongqiao Holdings; (2) China Hongqiao Investment Limited (“Hongqiao Investment”) and Hongqiao Investment (Hong Kong) Limited (“Hongqiao Hong Kong”) were also incorporated and became subsidiaries of the Company; and (3) Profit Long Investment Limited (“Profit Long Investment”) and 山東魏橋創業集團有限公司 (“Chuangye Group”) transferred their equity interest of 98% and 2% in Shandong Hongqiao to Hongqiao Hong Kong for a consideration of RMB3,193,921,000 and RMB65,182,000, respectively, of which RMB65,182,000 was settled by cash and paid in March 2010 and RMB3,193,921,000 was settled by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings in April 2010. The Company became the holding company of Shandong Hongqiao and its subsidiaries in March 2010. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity.

The consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if the Company had been the holding company of Shandong Hongqiao from 1 January 2010 up to the completion of the Reorganisation. The 98% interests in Shandong Hongqiao held by Profit Long Investment, a company controlled by Mr. Zhang through trust arrangements entered into since 2006, whereby Mr. Zhang has nominated two persons to hold the entire equity interests in Profit Long Investment on his behalf, was accounted for as equity attributable to owners of the Company when Shandong Hongqiao was consolidated by the Group using the principle of merger accounting for business combination under common control. The remaining 2% interests in Shandong Hongqiao held by Chuangye Group was presented as non-controlling interests up to the date, when the 2% equity interest of Shandong Hongqiao was transferred to the Group as detailed in the preceding paragraph. Pursuant to certain share transfer arrangements entered into in February 2010, Mr. Zhang has become the legal owner of the entire equity interests in Profit Long Investment.

The consolidated financial statements are presented in Renminbi (“RMB”) which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied, for the first time, the following new and revised Standards and Interpretation (“new and revised IFRSs”) issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB which are or have become effective.

IFRSs (Amendments)	Improvements to IFRSs issued in 2010
IAS 24 (as revised in 2009)	Related Party Disclosures
IAS 32 (Amendments)	Classification of Rights Issues
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The adoption of the new and revised IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective.

IFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets <sup>1</sup> Disclosures-Offsetting Financial Assets and Financial Liabilities <sup>2</sup> Mandatory Effective Date of IFRS 9 and Transition Disclosures <sup>3</sup>
IFRS 9	Financial Instruments <sup>3</sup>
IFRS 10	Consolidated Financial Statements <sup>2</sup>
IFRS 11	Joint Arrangements <sup>2</sup>
IFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
IFRS 13	Fair Value Measurement <sup>2</sup>
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income <sup>5</sup>
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>4</sup>
IAS 19 (Revised 2011)	Employee Benefits <sup>2</sup>
IAS 27 (Revised 2011)	Separate Financial Statements <sup>2</sup>
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2011

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of the above new and revised IFRSs will have no material impact on the results and the financial position of the Group.



### 3. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture and sales of aluminum products.

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the executive directors of the Company, the Group's chief operating decision maker in order to allocate resources to segments and to assess their performance. The information reported to executive directors of the Company for the purpose of resource allocation and assessment of performance, includes only revenue analysis by products and does not contain profit information of each product line and the executive directors reviewed the gross profit of the Group as a whole reported under relevant accounting regulations of the PRC which has no significant differences as compared with gross profit reported under IFRS. It was determined that the Group has only one single operating segment, being the manufacture and sales of aluminum products. As a result, no segment information other than the entity-wide disclosure is presented.

No segment assets and liabilities, and related other segment information were presented as no such discrete financial information are provided to the chief operating decision maker.

The Group's revenue from continuing operations represents the amount received and receivable for sale of aluminum products and steam supply.

An analysis of the Group's revenue from continuing operations is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Revenue from		
Sales of goods		
Aluminum products		
– molten aluminum alloy	16,972,433	12,204,082
– aluminum alloy ingots	5,845,640	2,183,065
– aluminum alloy casting-rolling plate	7,361	–
– aluminum busbars	102,955	66,786
Steam supply income	697,642	677,658
	<u>23,626,031</u>	<u>15,131,591</u>

All external revenues of the Group are contributable to customers established in the PRC, the place of domicile of the Group's operating entities. The Group's non-current assets are mainly located in the PRC.

Revenue from customers from continuing operations contributing over 10% of the total revenue of the Group are as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Customer A	7,903,513	6,180,228
Customer B	3,763,358	3,351,194

#### 4. OTHER INCOME AND GAIN AND LOSS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Continuing operations		
Interest income	11,156	8,639
Net gain on sales of raw materials ( <i>Note</i> )	46,538	19,889
Revenue from sales of slag of carbon anode blocks	257,861	143,257
Foreign exchange (losses) gains, net	(25,782)	156
Others	22,187	38,594
	<u>311,960</u>	<u>210,535</u>

*Note:*

The revenues and expenses resulting in the net gain on sales of raw materials are as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Revenue from sales of raw materials	57,559	36,623
Expenses related to sales of raw materials	(11,021)	(16,734)
	<u>46,538</u>	<u>19,889</u>

#### 5. FINANCE COSTS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Continuing operations		
Interest expenses on bank borrowings		
– wholly repayable within five years	330,281	198,108
Less: Amount capitalised under construction in progress	(29,462)	(5,118)
	<u>300,819</u>	<u>192,990</u>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 5.88% (2010: 6.5%) per annum to expenditure on qualifying assets.

## 6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging (crediting):

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Staff cost:		
Directors' emoluments	5,340	5,213
Other staff costs:		
– Wages and salaries	536,089	299,295
– Retirement benefit schemes contributions	16,082	13,201
Total staff costs	<u>557,511</u>	<u>317,709</u>
Auditors' remuneration	3,500	2,070
Depreciation of property, plant and equipment	840,736	598,813
Cost of inventories recognised as an expense	15,362,093	9,297,420
Amortisation of prepaid lease payments	7,611	2,268
Loss on disposal of property, plant and equipment (included in administrative expenses)	–	122
Listing expenses	<u>15,842</u>	<u>42,815</u>

## 7. INCOME TAX EXPENSES

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Continuing operations		
The charge comprises:		
Current tax		
PRC enterprise income tax	2,000,756	1,423,350
Under provision in prior years	–	625
Deferred tax charge (credit)	77,705	(28,107)
	<u>2,078,461</u>	<u>1,395,868</u>

The tax charge represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of subsidiaries established in the PRC.

Under the Law of PRC on Enterprise Income Tax (“the EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

In addition, the EIT Law provides that qualified dividend income between two “PRC-resident enterprises” that have a direct investment relationship is exempted from income tax. Otherwise, such dividends will be subject to a 5% to 10% withholding tax under the tax treaty or the domestic law. The Group is currently subject to withholding tax at 5%.

The Company and its subsidiaries incorporated in BVI and Hong Kong had no assessable profits since their incorporation.

The income tax expense for the year relating to continuing operations can be reconciled to the profit before taxation from continuing operations per the consolidated statements of comprehensive income as follows:

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit before taxation from continuing operations	<u><b>7,953,871</b></u>	<u>5,584,584</u>
Tax at the PRC income tax rate of 25% (2010: 25%)	<b>1,988,468</b>	1,396,146
Tax effect of expenses not deductible	<b>237</b>	429
Tax effect of tax losses not recognised	<b>8,666</b>	1,091
Utilisation of tax losses previously not recognised	–	(2,423)
Under provision in respect of prior years	–	625
Deferred tax associated with withholding tax on undistributed profits of PRC subsidiaries	<u><b>81,090</b></u>	<u>–</u>
Tax charge for the year relating to continuing operations	<u><b>2,078,461</b></u>	<u>1,395,868</u>

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Profit for the year from continuing and discontinued operations attributable to owners of the Company	<u><b>5,875,410</b></u>	<u>4,195,738</u>
Profit for the year from continuing operations attributable to owners of the Company	<u><b>5,875,410</b></u>	<u>4,164,853</u>
Profit for the year from discontinued operations attributable to owners of the Company	<u>–</u>	<u>30,885</u>
	<b>2011</b> <i>'000 shares</i>	2010 <i>'000 shares</i>
Weighted average number of shares	<u><b>5,684,000</b></u>	<u>5,000,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the years ended 31 December 2010 and 2011 has been adjusted for the effect of 4,999,000,000 ordinary shares issued pursuant to the capitalisation issue completed on 24 March 2011.

No diluted earnings per share is presented as the Company did not have potential ordinary shares outstanding during both years.

## 9. DIVIDENDS

No dividends were paid during both years.

The final dividend of HK\$1,883,200,000 (equivalent to RMB1,526,710,000) at HK\$32.0 cents per share for the year ended 31 December 2011 (2010: Nil) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 10. TRADE RECEIVABLES

The Group has a policy of allowing average credit period of 90 days to its trade customers with trading history, or otherwise sales on cash terms are required.

The aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the reporting date is as follows:

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
0 – 90 days	<b><u>1,438</u></b>	<u>3,716</u>

Before accepting any new customer, the Group will internally assess the credit quality of the potential customer and define appropriate credit limits.

Management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality.

Impairment for trade receivables over 90 days are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience and objective evidences of impairment and expected recoverable amounts.

Movements in allowance for trade receivables:

	2010
	<i>RMB'000</i>
Balance at 1 January 2010	24,371
Decrease through disposal of Dyeing Business	<u>(24,371)</u>
Balance at 31 December 2010 and 31 December 2011	<u>–</u>

The allowance for trade receivable was related to the Dyeing Business. Full provision has been made in respect of individually fully impaired trade receivables which had been in severe financial difficulties.

In determining the recoverability of the trade receivables, the Group reassesses the credit quality of the trade receivables since the credit was granted and up to the reporting date. Based on the historical experience of the Group, the directors of the Company believe that no further allowance is required.

## 11. RESTRICTED BANK DEPOSITS AND BANK BALANCES

Restricted bank deposits represent the Group's bank deposits pledged to banks to secure certain short term facilities granted to the Group by banks.

The restricted bank deposits carry market interest rate of 0.36% to 0.5% per annum as at 31 December 2011 (2010: 0.36% to 1.98%).

Bank balances and cash at 31 December 2011 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

## 12. TRADE PAYABLES

Trade payables principally comprise amounts outstanding for purchases of goods. The average credit period is 180 days.

The aged analysis of trade payables presented based on the invoice date at the reporting date is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0 – 180 days	1,202,549	681,177
181 – 365 days	12,597	499
1 – 2 years	798	307
Over 2 years	315	446
	<u>1,216,259</u>	<u>682,429</u>

## 13. OTHER PAYABLES

An analysis of other payables of the Group is as follows:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Payables on property, plant and equipment	1,511,252	215,743
Retention payables	650,346	138,446
Accrued liability related to litigations	102,260	102,260
Other payables and accruals	26,157	38,742
Advance from customers	225,881	457,576
Accrued payroll and welfare	14,123	10,990
Other tax payable	114,564	205,145
	<u>2,644,583</u>	<u>1,168,902</u>

## 14. RELATED PARTY TRANSACTIONS

### (a) Name and relationship with related parties

Name	Relationship
Chuangye Group	Note ii
濱州魏橋鋁業科技有限公司 (“Aluminum Technology”) (note i)	Controlled by Chuangye Group
鄒平魏橋再生資源利用有限公司 (“Zouping Weiqiao Recycling Resources Co., Ltd”) (note i)	Controlled by Chuangye Group
Binzhou Marine Chemical Co., Ltd. (“Marine Chemical”)	Note iv
Zheng Shuliang (“Ms. Zheng”)	Spouse of Mr. Zhang
Binzhou Zhengtong New Aluminum Profiles Co., Ltd. (“Zhengtong”)	Note iii

#### Notes:

- (i) The English names of these companies are for reference only and have not been registered.
- (ii) Mr. Zhang, the director and the controlling shareholder of the ultimate holding company of the Company, has a significant non-controlling beneficial interest in Chuangye Group during the two years ended 31 December 2011.
- (iii) Zhengtong was significantly influenced by Ms. Zheng up to March 2010 when the entire equity interest of Zhengtong was acquired by the Group.
- (iv) Marine Chemical was controlled by 山東慧濱棉紡漂染有限公司 (“Huibin Dyeing”) since 1 January 2010.

- (b) Except as disclosed in elsewhere in the consolidated financial statements, the Group has entered into the following significant transactions with its related parties during the two years ended 31 December 2011:

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Purchases of carbon anode blocks <i>(Note ii)</i>		
– Aluminum Technology	<b>333,744</b>	309,867
Sales of slag of carbon anode blocks <i>(Note ii)</i>		
– Aluminum Technology	<b>23,999</b>	23,461
Sales of accessories <i>(Note iii)</i>		
– Chuangye Group	–	1
– Aluminum Technology	–	70
– Marine Chemical	–	1
– Zouping Weiqiao Recycling Resources Co., Ltd	–	49
	–	121
Sales of aluminum alloy ingots <i>(Note ii)</i>		
– Chuangye Group	–	1,928
Sales of aluminum busbars <i>(Note ii)</i>		
– Chuangye Group	–	10,029
Purchases of molten aluminum <i>(Note iii)</i>		
– Chuangye Group	–	97,530
Purchases of materials <i>(Note iii)</i>		
– Chuangye Group	–	599
– Aluminum Technology	–	7
– Marine Chemical	–	2
	–	608
Purchase of cryolite <i>(Note iii)</i>		
– Chuangye Group	–	6,256
Purchase of land use rights <i>(Note iii)</i>		
– Chuangye Group <i>(Note i)</i>	–	50,091
Rental expense <i>(Note iii)</i>		
– Chuangye Group	–	1,558



Notes:

- (i) Pursuant to a lease entered into between Chuangye Group and the Group, Chuangye Group agreed to lease to the Group certain land for the Group's production facilities with effect from 1 July 2005. Pursuant to certain land purchase agreements entered into by Chuangye Group and the Group dated 11 January 2010, the Group acquired the land use rights for the land leased from Chuangye Group; and the land on which the production plants of the aluminum business of Chuangye Group acquired by the Group were located, for an aggregate cash consideration of RMB50,091,000, which was paid in January 2010.
- (ii) The transactions were conducted at prices with reference to the then prevailing market prices.
- (iii) The transactions were conducted at prices agreed by both parties.

**(c) Compensation of key management personnel**

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Short term employee benefit	<b>5,684</b>	5,392
Retirement benefits scheme contributions	<b>28</b>	24
	<b>5,712</b>	5,416

Ms. Zheng and Mr. Zhang Bo began to receive their emoluments from Chuangye Group from 1 January 2010 to April 2010 and Mr. Zhang began to receive his emolument from Chuangye Group from 1 January 2010 to June 2010.

**15. SHARE CAPITAL**

The details of the Company's share capital are as follows:

	<i>Notes</i>	<b>Number of shares</b>	<b>Shares capital</b>
			<i>US\$</i>
Authorised			
Ordinary shares of US\$1 each			
At date of incorporation	<i>(a)</i>	50,000	50,000
Increase on subdivision of shares on 7 June 2010	<i>(c)</i>	4,950,000	—
Ordinary shares of US\$0.01 each			
At 31 December 2010		5,000,000	50,000
Increase on 16 January 2011	<i>(d)</i>	9,995,000,000	99,950,000
Ordinary shares of US\$0.01 each			
At 31 December 2011		<b>10,000,000,000</b>	<b>100,000,000</b>

	<i>Notes</i>	Number of shares	Shares capital US\$
Issued and fully paid			
Ordinary shares of US\$1 each			
At date of incorporation	<i>(a)</i>	100	100
Issue of new shares on 13 April 2010	<i>(b)</i>	9,900	9,900
Increase on subdivision of shares on 7 June 2010	<i>(c)</i>	990,000	–
		<hr/>	<hr/>
Ordinary shares of US\$0.01 each			
At 31 December 2010		1,000,000	10,000
Capitalisation of share premium on 24 March 2011	<i>(d)</i>	4,999,000,000	49,990,000
Issue of shares upon listing of the Company's shares on the Stock Exchange on 24 March 2011	<i>(e)</i>	885,000,000	8,850,000
		<hr/>	<hr/>
Ordinary shares of US\$0.01 each			
At 31 December 2011		5,885,000,000	58,850,000
		<hr/> <hr/>	<hr/> <hr/>
		<b>2011</b>	2010
		<b>RMB'000</b>	<b>RMB'000</b>
Shown on the consolidated statement of financial position		<b>386,206</b>	69
		<hr/> <hr/>	<hr/> <hr/>

*Notes:*

- (a) On 9 February 2010, the Company was incorporated in the Cayman Islands with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On the same date, 100 shares of US\$1 each were issued.
- (b) As part of the Reorganisation set out in Note 1, the amount payable of RMB3,193,921,000 by the Group to Profit Long Investment for the acquisition of the 98% interest in Shandong Hongqiao was settled on 13 April 2010 by issuance of 9,900 shares by the Company to its parent Hongqiao Holdings.
- (c) On 7 June 2010, the par value of the shares of the Company was reduced from US\$1 each to US\$0.01 each, and the authorised share capital was changed from US\$50,000 divided into 50,000 shares of US\$1 each to US\$50,000 divided into 5,000,000 shares of US\$0.01 each. The issued share capital then became 1,000,000 shares of US\$0.01 each.
- (d) Pursuant to the written resolutions of all shareholders of the Company passed on 16 January 2011, the authorised share capital of the Company was increased from US\$50,000 to US\$100,000,000 by the creation of an additional 9,995,000,000 shares. A sum of US\$49,990,000 standing to the credit of the share premium account of the Company was capitalised and applied in paying up in full at par 4,999,000,000 shares allotment and issued to the shareholders of the Company whose name appeared on the register of members of the Company at the close of business on 24 March 2011 in proportion to their then respective existing shareholdings in the Company and the directors allotted and issued such shares as aforesaid on 24 March 2011.
- (e) On 24 March 2011, the Company issued 885,000,000 ordinary shares of US\$0.01 each at the price of HK\$7.20 per share by way of placing and public offering. On the same date, the Company's shares were listed on the Stock Exchange.

## 16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 9 March 2012.

## **CHAIRMAN’S STATEMENT**

It is my pleasure to present on behalf of the board of directors (the “Board”) of China Hongqiao Group Limited (“China Hongqiao” or the “Company”) the annual results of the Group for the year ended 31 December 2011 (the “Year” or “Period under Review”).

## **SUCCESSFUL LISTING**

The successful listing of the Company in 2011 marked a key milestone for the Group’s development. Having been listed on the Main Board of The Stock Exchange of Hong Kong Limited for almost a year, the Company has successfully established a diversified financing platform to help expedite its expansion plans. We have also upgraded our production facilities, further increased our production capacity and augmented our market position, each of which has strengthened our ability to benefit from market opportunities. We operate by the principles of “high efficiency, energy conservation and environment friendliness”. Since our listing, we have committed to improve our corporate governance and transparency, as well as further enhance the Group’s competitive advantages in the aluminum industry, while consolidating our position in the PRC and globally as a leading aluminum product manufacturer.

## **RESULTS AND ACHIEVEMENTS**

In 2011, the steady growth of China’s economy continued to bolster market demand for aluminum products. Against this backdrop, the Group continued to expand its production capacity and industrial chain and diversified its product portfolio to meet market and consumer demand. Furthermore, the Group continued the expansion of its power production facilities, optimized production and efficiency, and effectively controlled costs in order to further boost its profitability. As at 31 December 2011, the Group’s manufacturing facilities had a designed annual production capacity of 1,776,000 tons of aluminum products, ranking fourth amongst all aluminum product manufacturers in China. Leveraging on the local industry cluster advantage and the Group’s economies of scale, unique business model and effective cost control, we have fulfilled our promises by again delivering satisfactory results. During the Period under Review, the Group recorded revenue of approximately RMB23,626.0 million, representing a year-on-year increase of approximately 56.1%. Gross profit amounted to approximately RMB8,176.4 million, representing a year-on-year increase of approximately 42.4%. Net profit attributable to owners of the Company amounted to approximately RMB5,875.4 million, representing a year-on-year increase of approximately 40.0%. Earnings per share were approximately RMB1.03 (2010: approximately RMB0.84). The Board recommended the payment of a final dividend HK\$32.0 cents per share for the year 2011 (2010: Nil).

## **INCREASING DEMAND FOR ALUMINUM**

During the Period under Review, although the market was dampened by external factors, such as economic uncertainties in Europe, which led to volatility in the price of aluminum, the Group still managed to implement its business strategies by focusing on the domestic market. The Ministry of Industry and Information Technology of the People's Republic of China released the "12th Five-Year Plan for the Nonferrous Metal Industry" on 4 December 2011, which sets the industrial growth rate of the non-ferrous metals industry, including the aluminum industry, at a target average annual growth rate of not less than 10% between 2012 and 2015 (the "12th Five-Year Plan"); whilst the "12th Five-Year Plan for Aluminum Industry" targets an average annual growth rate specifically for the aluminum industry of not less than 12%. Although the growth rate is slightly lower than the target originally stipulated by the "11th Five-Year Plan", we believe that domestic demand will remain strong enough to buoy the growth of the Chinese aluminum market. In addition, the central government's increasing investment in infrastructure, the steady development of the domestic transportation and electronic products industries, etc., indicate that the market demand for aluminum products remains optimistic.

## **OUTLOOK**

The Group's current aggregate designed annual production capacity of aluminium products was increased to 1,776,000 tons. As at 31 December 2011, the Group's production facilities, which have a capacity of 1,566,000 tons, were put into operation and the remaining production facilities will be in full operation by 2012, which will further help expand our market share. As for our captive power production facilities, the Group currently possesses units with an aggregate installed capacity of 1,740MW. The construction of additional units with an aggregate installed capacity of 990MW are expected to be completed by the end of 2012. As our new units gradually begin operation, the Group's self-supplied electricity ratio will be further increased, which will help us to further control our production costs, so as to consolidate the Group's core strengths.

In addition to continuing to expand production scale and consolidating our leading position in the industry, the Group will also strive to expand the industrial chain and develop clean energy and recycling economy in order to build a competitive enterprise with integration of upstream and downstream businesses with power supply capabilities. The Group continues to expand the industrial chain and further realize industrial integration based on its business development needs. On the one hand, we will advance our upstream raw materials business, including continuing the construction of the projects for the comprehensive utilization of coal fly ash in order to satisfy the increasing needs for the key raw materials alumina used for the production of aluminum products arising from the expansion of the Group's production capacity; and overseas exploration to identify quality bauxite resources to strengthen the stability of raw materials supply. On the other hand, we will also develop advanced aluminum processing business to optimize the product mix, further enhance the added-value of the Group's products and improve our economic efficiency. We believe such plan will bring China Hongqiao to new heights. Moreover, in the long run, the expansion of the industrial chain helps fortify the foundation for the Group's business as well as the industry cluster, which in turn brings positive impacts on our cost structure and scale.

Looking ahead, while we expect the outlook of the aluminum market to remain optimistic, it will also be full of competition and uncertainties. When facing such opportunities and challenges, it is a leading company's vision, scale and strategy that sets it apart from the competition and allows it to maintain steady growth. The Group will further expand its core competitiveness and sustainable development capacity through a series of business strategies. We plan to further strengthen our financial position and accelerate our expansion plans by exploring multiple channels. Meanwhile, we will reinforce effective communication with investors and stakeholders so as to maintain transparency of the Group. In addition, we will continue to stay abreast with the economic environment, changes in government policies and trends in the aluminum industry, in order to grasp every opportunity to enhance the Group's sustainable development and deliver fruitful results to our shareholders.

## **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all employees of the Group for their tireless efforts and dedication, which were critical to the Group achieving the outstanding results it achieved in 2011 and enhancing its competitive edge. We are also very grateful for the continued support and trust of our shareholders, customers and business partners.

**Zhang Shiping**

*Chairman of the Board*

9 March 2012

## MANAGEMENT DISCUSSION AND ANALYSIS

### INDUSTRY REVIEW

The year of 2011 posed a great deal of challenge for most aluminum manufacturers, particularly to those who lack flexibility in production costs. These challenges largely arose from rising costs driven by increases in electricity and coal prices, coupled with the global economic slowdown triggered by the European debt crisis.

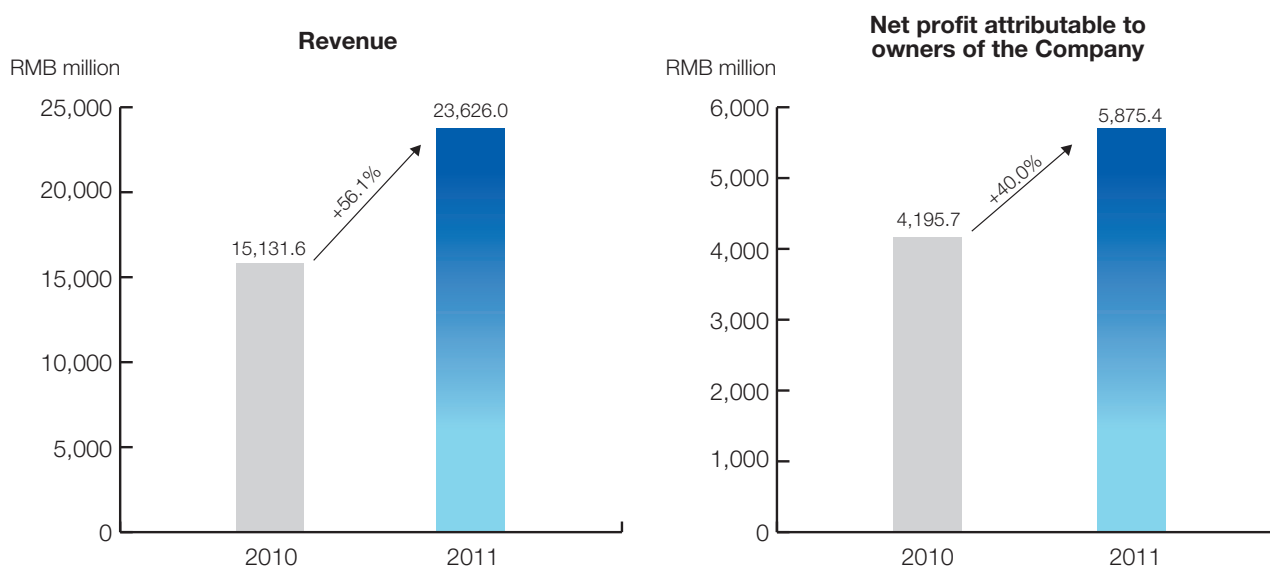
In terms of PRC domestic supply and demand, the demand for aluminum products continued to grow. While there was a slowdown in construction of commodity housing under the influence of regulatory measures, the indemnificatory housing construction plan remained unchanged. Strong demand for new energy vehicles and China's car subsidy program for rural areas also stimulated production and sales volumes. On the other hand, the use of aluminum as a replacement for copper became increasingly popular. As for supply, electricity tariffs were raised twice in 2011, resulting in the increases in production costs of some enterprises in the aluminum industry, so that some manufacturers had to scale down or even suspend production due to further cost increases. However, significant new production capacity, particularly in the northwest regions of China, including the Xinjiang province, Inner Mongolia and Qinghai province, went into operation and boosted the overall domestic production volumes. According to Antaiko, the global production volume of primary aluminum for 2011 was approximately 45,990,000 tons, representing an increase of approximately 7.9% as compared with 2010, among which, the primary aluminum production volume in China had a year-on-year increase of approximately 11.4%, to approximately 19,600,000 tons. As for consumption, the global consumption of primary aluminum in 2011 amounted to approximately 45,550,000 tons, representing an increase of approximately 7.9% from 2010, of which, consumption of primary aluminum in China amounted to approximately 20,050,000 tons, representing an increase of approximately 14.6% as compared with last year.

In 2011, the price of aluminum rallied early in the year before retreating in the latter part of the year. During the first half of the year, the price of aluminum continued to ascend from the high level recorded in the second half of 2010. Driven by factors such as a strong demand from downstream processing, export and inflation, the average spot price quoted on the Shanghai Futures Exchange ("SHFE") reached the highest point of the year at RMB17,959 per ton (tax inclusive) in August. The price of aluminum descended as the fundamental conditions of the aluminum market were adversely affected by the global economic slowdown driven by the European debt crisis. As at the end of December 2011, the three-month aluminium futures price quoted on the London Metal Exchange ("LME") was USD2,032 per ton and the three-month aluminium futures price on the SHFE was RMB16,002 per ton (tax inclusive).

## BUSINESS REVIEW

During the Year, China Hongqiao focused on further strengthening its core competitiveness. The Group increased its overall production capacity through the construction of new facilities and optimization of its operations. As of 31 December 2011, the Group's aggregate designed annual production capacity reached 1,776,000 tons, ranking as the fourth largest aluminum product manufacturer in China (corporate ranking source: Antaike). Given the increasing market demand, the Group's total output in 2011 amounted to approximately 1,594,193 tons, representing a year-on-year increase of approximately 48.1%.

The Group's revenue and net profit attributable to owners of the Company for the year ended 31 December 2011, with comparison figures for the year ended 31 December 2010, are as follows:



For the year ended 31 December 2011, the Group recorded revenue of approximately RMB23,626.0 million, representing a year-on-year growth of approximately 56.1%, mainly due to increases in the Group's production capacity and sales volumes during the Year as well as an increase in the average selling price of our aluminum products. During the Year, the sales volume of the Group's aluminum products was approximately 1,585,810 tons, representing an increase of approximately 48.9% from approximately 1,064,775 tons of sales volume in previous year. The average selling price of our aluminum products increased by approximately 6.5% from approximately RMB13,575 per ton in 2010 to approximately RMB14,458 per ton in 2011.

For the year ended 31 December 2011, net profit attributable to owners of the Company amounted to approximately RMB5,875.4 million, representing a year-on-year growth of approximately 40.0%, mainly due to the increases in production capacity and production volume, as well as the increases in sales volume and net profit of the Group's aluminum products, driven by the rise in the average selling price of the Group's aluminum products, which was resulted from the strong demand in the aluminum market.

The tables below are a comparison of the breakdown of revenue by products for the years ended 31 December 2011 and 2010:

### Revenue breakdown by products

Products	For the year ended 31 December			
	2011		2010	
	Revenue <i>RMB'000</i>	Percentage of total revenue %	Revenue <i>RMB'000</i>	Percentage of total revenue %
Molten aluminum alloy	16,972,433	71.8	12,204,082	80.7
Aluminum alloy ingots	5,845,640	24.7	2,183,065	14.4
Aluminum busbars	102,955	0.4	66,786	0.4
Aluminum alloy casting-rolling plate	7,361	0.1	—	—
Steam supply income	697,642	3.0	677,658	4.5
Total	<u>23,626,031</u>	<u>100.0</u>	<u>15,131,591</u>	<u>100.0</u>

As for our products, the Group's revenue derived from aluminum products was approximately RMB22,928.4 million, accounting for approximately 97.0% of total revenue for the year ended 31 December 2011. Among which, the decrease in percentage share of molten aluminum alloy in the revenue mainly resulted from the enlarged production scale of the Group, and the sales of aluminum alloy ingots were increased accordingly. Revenue derived from sales of steam was approximately RMB697.6 million, accounting for approximately 3.0% of our total revenue.

### FINANCIAL REVIEW

#### Revenue, gross profit and gross profit margin

The table below is an analysis of the Group's revenue, gross profit and gross profit margin derived from its major products for the years ended 31 December 2011 and 2010:

Products	For the year ended 31 December					
	2011			2010		
	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Margin %	Revenue <i>RMB'000</i>	Gross profit <i>RMB'000</i>	Margin %
Aluminum products	22,928,389	8,006,762	34.9	14,453,933	5,517,416	38.2
Steam supply income	697,642	169,624	24.3	677,658	224,453	33.1
Total	<u>23,626,031</u>	<u>8,176,386</u>	<u>34.6</u>	<u>15,131,591</u>	<u>5,741,869</u>	<u>37.9</u>



For the year ended 31 December 2011, the overall gross profit margin of the Group's products decreased by approximately 3.3 percentage points to 34.6% as compared with 37.9% in 2010. This was mainly due to an increase in the price of raw materials and an increase in the proportion of the electricity we purchased as compared to that we consumed from our own electricity production facilities. The average cost of sales per ton of the aluminum products sold by the Group increased by approximately 12.1% as compared with 2010, while the unit sale price increased by approximately 6.5%. Upon the completion of the new power production facilities, the Group expects the percentage of self-supply electricity to rise, which will bring a positive impact on our overall gross profit margin.

### **Distribution and selling expenses**

The Group's distribution and selling expenses increased by approximately 120.5% to approximately RMB44.1 million for the year ended 31 December 2011 from approximately RMB20.0 million for the previous year, which was mainly attributable to an increase in transportation cost as a result of the increase in sales volume of the Group's aluminum products and an increase in transportation unit cost.

### **Administrative expenses**

Administrative expenses of the Group for the year ended 31 December 2011 amounted to approximately RMB167.0 million, representing an increase of approximately 49.1% as compared with approximately RMB112.0 million for the previous year. Such an increase was mainly due to an increase in employee headcounts and their remuneration. On the other hand, this was because of the increase in local tax payables and amortization of prepaid lease payment arising from the Group's purchase of land, which is for the construction of new plants for the expansion of its production capacity.

### **Other expenses**

For the year ended 31 December 2011, other expenses of the Group amounted to approximately RMB22.6 million, which was mainly due to the fees incurred in connection with the listing of the Company.

### **Finance costs**

For the year ended 31 December 2011, finance costs of the Group were approximately RMB300.8 million, representing an increase of approximately 55.9% as compared with approximately RMB193.0 million for the previous year. This was mainly due to an increase in bank loans and the increase in interest rates during the Year as compared with the previous year.

## Liquidity and financial resources

As at 31 December 2011, cash and cash equivalents of the Group were approximately RMB7,484.8 million, representing an increase of approximately 180.4% as compared with that of approximately RMB2,669.6 million as at 31 December 2010.

The Group principally satisfies its demand for operating capital through cash inflow from operations. For the year ended 31 December 2011, the Group had a net cash outflow from investing activities of approximately RMB8,898.4 million, a net cash inflow from financing activities of approximately RMB8,083.5 million and a net cash inflow from operating activities of approximately RMB5,630.1 million.

For the year ended 31 December 2011, the capital expenditures of the Group amounted to approximately RMB9,153.5 million, mainly for the expansion of its aluminum production capacity and the investment in its captive power production facilities. Among others, the net proceeds of approximately RMB5,365.0 million from the Company's initial public offering have been utilised in the manner consistent with that stated under the section headed "Use of Proceeds" of the prospectus of the Company.

As at 31 December 2011, the Group had a capital commitment of approximately RMB14,410.5 million, representing capital expenditure in respect of acquisition of property, plant and equipment, primarily related to the construction of the aluminum advanced processing facilities and the captive power production facilities.

For the year ended 31 December 2011, the Group's average turnover days of trade receivables was approximately 1 day, which was the same as compared with approximately 1 day of the previous year. It was mainly because the Group required prepayment before delivery, and if the value of actual shipment exceeded the prepayment, the Group would grant its customers no more than a 90 days credit period, therefore, the Group's trade receivables turnover period was generally quite short.

For the year ended 31 December 2011, the Group's turnover days of inventory was approximately 36 days, representing a slight increase as compared with approximately 32 days of the previous year, which was mainly due to the increase in the inventory of raw materials required for its production and the increase in work-in-process products as a result of the operation of the new production line for aluminum products.

## **Contingent liabilities**

In 2010 and 2011, Wuhan Boiler Company Limited (“Wuhan Boiler”) initiated legal proceedings against the Company in respect of the boiler purchase agreements entered into with the Company, respectively. As at 31 December 2011, the Group incurred contingent liabilities of approximately RMB512.3 million (31 December 2010: approximately RMB335.0 million) with respect to such claims. Please refer to the paragraphs “Litigation” under the section “Business” in the prospectus of the Company and the announcements made by the Company dated 12 April 2011 and dated 12 September 2011 for the details on the Group’s litigations with Wuhan Boiler.

## **Income tax**

The Group’s income tax for 2011 amounted to approximately RMB2,078.5 million, representing an increase of approximately 48.9% as compared with approximately RMB1,395.9 million for the previous year, which was mainly attributable to the increase of the Group’s profit before taxation.

## **Net profit attributable to owners of the Company and earnings per share**

Net profit attributable to owners of the Company was approximately RMB5,875.4 million for the year ended 31 December 2011, representing an increase of approximately 40.0% as compared with approximately RMB4,195.7 million in 2010. Earnings per share of the Company in 2011 were approximately RMB1.03. Please refer to note 8 of the financial statements for details of the calculation.

## **Capital structure**

We have built an appropriate liquidity risk management framework to manage our short, medium and long-term funding and to satisfy our liquidity management requirements. Cash and cash equivalents of the Group amounted to approximately RMB7,484.8 million (31 December 2010: approximately RMB2,669.6 million) as at 31 December 2011 and were mainly deposited with commercial banks. As at 31 December 2011, the total liabilities of the Group amounted to approximately RMB11,272.0 million (31 December 2010: approximately RMB6,043.2 million). Gearing ratio (total liabilities to total equity) was approximately 61.3% (31 December 2010: approximately 82.8%). For the year ended 31 December 2011, the Group had secured the land use rights with carrying value amounted to approximately RMB 32.7 million for obtaining bank loans.

The Group maintained a balanced portfolio of loans at a fixed interest rate and variable rates to manage its interest expenses. As at 31 December 2011, approximately 43.1% of the Group’s bank borrowings were subject to fixed interest rates while the remaining approximately 56.9% were subject to floating interest rates.

The Group used its restricted bank deposits, oversea subsidiaries’ shares and prepaid lease payments for its bank borrowings as collateral and financing its daily operations and project construction. As of 31 December 2011, the Company’s secured bank borrowings amounted to approximately RMB1,125.7 million (31 December 2010: approximately RMB89.9 million).

The Group maintains a balance between the continuity and flexibility of funds through bank loans. As at 31 December 2011, approximately 44.6% of the Group’s borrowings will become due within one year.

As at 31 December 2011, the Group's borrowings were mostly denominated in RMB and US dollars accounting for approximately 84.2% and 15.8% of the total borrowings, respectively, Cash and cash equivalents were mainly held in RMB, US dollars and HK dollars, of which approximately 0.3% was held in US dollars and approximately 1.2% of the cash and cash equivalents was held in HK dollars.

### **Employee and remuneration policy**

As at 31 December 2011, the Group had a total of 18,111 employees, representing an increase of 4,227 employees as compared with 2010. As a result of the expansion of its production capacity, the Group recruited additional staff to meet the requirements of the Group's production. During the Year, total staff costs amounted to approximately RMB557.5 million, representing approximately 2.4% of our total revenue. The remuneration packages of our employees include salary and various types of benefits.

In addition, we have established a performance-based remuneration system under which employees may be awarded with additional bonuses. We provide training programs for our employees to equip them with the requisite skills and knowledge.

### **Exposure to foreign exchange risk**

We collected all of our revenue in RMB and funded most of our capital expenditures in Renminbi. As certain bank balances and borrowings are denominated in foreign currencies, we are exposed to certain currency risks. As of 31 December 2011, our bank balances denominated in foreign currencies were approximately RMB108.9 million and bank borrowings were approximately RMB1,134.2 million. For the year ended 31 December 2011, the Group recognized foreign exchange loss of approximately RMB25.8 million.

We have not used any financial instruments to hedge against currency risk.

### **A new subsidiary established in China**

In order to better fulfill the Group's expanded production capacity, being more beneficial for the aluminum industry cluster in Binzhou and to have the effect of avoiding over-concentration of the products bases and diversification of operational risks, a wholly owned subsidiary, Huimin Huihong New Profiles Co., Ltd was established by Zhengtong on 6 December 2011. The registered capital amounted to RMB200 million and the registered address is Yue Hu Road North, Hu Ji Town, Huimin County, which is located at the Group's coverage area of power transmission line across Huanghe. The Group intends to construct its fourth production base of aluminum products through such subsidiary.

## **SUPPLEMENTAL INFORMATION**

### **SUFFICIENT PUBLIC FLOAT**

Based on the information that is publicly available to the Company and as far as the Directors are aware, the Company has maintained the amount of public float as approved by the Stock Exchange and as permitted under the Listing Rules as at the date of this announcement.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### **DIRECTORS**

The Directors of the Company as at 24 March 2011, being the date of the listing of the Company's shares and up to the date of this announcement are:

#### ***Executive directors***

Mr. Zhang Shiping (*Chairman*)

Ms. Zheng Shuliang (*Vice chairman*)

Mr. Zhang Bo (*Chief executive officer*)

Mr. Qi Xingli (*Chief financial officer*)

#### ***Non-executive Directors***

Mr. Yang Congsen

Mr. Zhang Jinglei

#### ***Independent Non-executive Directors***

Mr. Xing Jian

Mr. Chen Yinghai

Mr. Han Benwen

## **Directors' service contracts**

Each of the Directors has entered into a service contract with the Company for an initial term of three years with effect from their respective date of appointment unless terminated by not less than one month's notice in writing served by either the Directors or the Company. The appointments are subject to the provisions of retirement and rotation of Directors under the articles of association. None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

## **Directors' Interests in Contracts**

No directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year ended 31 December 2011 and up to the date of this announcement.

## **Directors' Remuneration**

The Directors' fees are subject to the shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of our Group.

## **Management Contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year and up to the date of this announcement.

## **SUBSTANTIAL SHAREHOLDERS**

### **Directors' and Chief Executive of the Company's Interests and Short Positions in Shares, Underlying Shares and Debentures**

As at 31 December 2011, the Directors or chief executive had the following interests or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the Laws of Hong Kong)) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be entered in the register described in the provisions pursuant to Section 352 of the SFO; or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors

of the Company (the “Model Code”) as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), were as follows:

### Long positions in the shares of the Company

Name of Directors	Capacity/type of interest	Number of total shares held	Approximate percentage of shareholding in issued shares (%)
Mr. ZHANG Shiping <sup>(1)</sup>	Interest of a controlled corporation	5,000,000,000	84.96
Ms. ZHENG Shuliang <sup>(2)</sup>	Spouse	5,000,000,000	84.96

*Notes:*

- (1) The interests of Mr. ZHANG Shiping in the Company were held through its wholly-owned subsidiary Hongqiao Holdings.
- (2) Ms. ZHENG Shuliang, the spouse of Mr. ZHANG Shiping, is deemed to be interested in all the Shares in which Mr. ZHANG Shiping is interested.

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company or any of their spouse or children under the age of 18 had or were deemed or taken to have an interest or short position in the shares, underlying shares or debentures of the Company or any of its holding companies, subsidiaries or associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO, or notified to the Company and the Stock Exchange pursuant to the Model Code. At no time was the Company or any of its holding companies or subsidiaries a party to any arrangements to enable the directors or the chief executive of the Company (including their spouse or children under the age of 18) to acquire any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

### Substantial Shareholders and Other Persons’ Interest and Short Positions in the Shares and Underlying Shares

As at 31 December 2011, so far as it is known to the Directors and chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO

or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

<b>Name of shareholder</b>	<b>Capacity/type of interest</b>	<b>Number of total shares</b>	<b>Approximate percentage of shareholding in issued shares (%)</b>
Mr. ZHANG Shiping <sup>(1)</sup>	Interest of a controlled corporation	5,000,000,000	84.96
Ms. ZHENG Shuliang <sup>(2)</sup>	Spouse	5,000,000,000	84.96
Hongqiao Holdings	Beneficial	5,000,000,000	84.96

*Notes:*

- (1) Mr. ZHANG is the legal and beneficial owner of the entire issued share capital of Hongqiao Holdings and is deemed to be interested in the shares of the Company held by Hongqiao Holdings.
- (2) Ms. ZHENG, the spouse of Mr. ZHANG, is deemed to be interested in all the shares of the Company in which Mr. ZHANG is interested.

Save as disclosed above, as at 31 December 2011, no other person had any interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group.

### **Directors' Rights to Acquire Shares or Debentures**

At no time during the year ended 31 December 2011 and up to the date of this announcement, was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of the shares or debentures of the Company or any other associated corporations, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the share capital or debentures of the Company or any other associated corporations or had exercised any such right in the period.



## **FINAL DIVIDENDS**

The Board has recommended the payment of a final dividend of HK\$32.0 cents per share for the year ended 31 December 2011. The proposed final dividends, subject to the approval of the shareholders of the forthcoming annual general meeting, will be paid on 5 June 2012 to the shareholders whose names appear on the register of members of the Company on 23 May 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The share register of the Company will be closed from Monday, 30 April 2012 to Thursday, 3 May 2012 (both days inclusive), during which no transfer of shares will be effected. In order to be entitled to attend the forthcoming Annual General Meeting of the Company and vote at the meeting, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on Friday, 27 April 2012. The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The share register of the Company will be closed from Monday, 21 May 2012 to Wednesday, 23 May 2012 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the final dividend, all completed share transfer forms accompanying with the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:30 p.m. on Friday, 18 May 2012. The address of Computershare Hong Kong Investor Services Limited is Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## **AUDIT COMMITTEE**

The Company has established an audit committee in compliance with the Code of Best Practices for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee is composed of the three Independent Non-executive Directors. An Audit Committee meeting was held on 9 March 2012 to review the consolidated annual financial statements of the Group for the year ended 31 December 2011. The Audit Committee considered that the annual financial results for the year ended 31 December 2011 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

The shares of the Company has been listed on the Stock Exchange since 24 March 2011. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period from the Listing Date of the Company to 31 December 2011 and up to the date of this announcement.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code for securities transactions on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”) as set out in Appendix 10 to the Listing Rules.

Having made specific enquiries with the Directors, the Company has confirmed that each of the Directors complied with the required standard set out in the Model Code regarding securities transactions by the Directors throughout the year ended 31 December 2011 and up to the date of this announcement.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has applied the principles as set out in the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) (“Listing Rules”). Since the Listing Date on 24 March 2011, the Company is in compliance with the mandatory code provisions of the CG Code.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT ON WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY**

This results announcement is published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company’s website at [www.hongqiaochina.com](http://www.hongqiaochina.com). The annual report will be dispatched to shareholders on or before 29 March 2012 and will be available on the Company’s website and the website of the Stock Exchange at the same time.

## **ACKNOWLEDGEMENT**

I would like to take this opportunity to express my sincere gratitude to our Board members and management team, and to all the employees, business partners, customers and shareholders of the Group, for their support and contribution to the Group.

By Order of the Board  
**China Hongqiao Group Limited**  
**Zhang Shiping**  
*Chairman*

Shandong, the People’s Republic of China

9 March 2012

*As at the date of this announcement, the board of Directors of the Company comprises 9 Directors, namely Mr. Zhang Shiping, Ms. Zheng Shuliang, Mr. Zhang Bo, Mr. Qi Xingli as Executive Directors, Mr. Yang Congsen, Mr. Zhang Jinglei as Non-executive Directors, and Mr. Chen Yinghai, Mr. Xing Jian and Mr. Han Benwen as Independent Non-executive Directors*