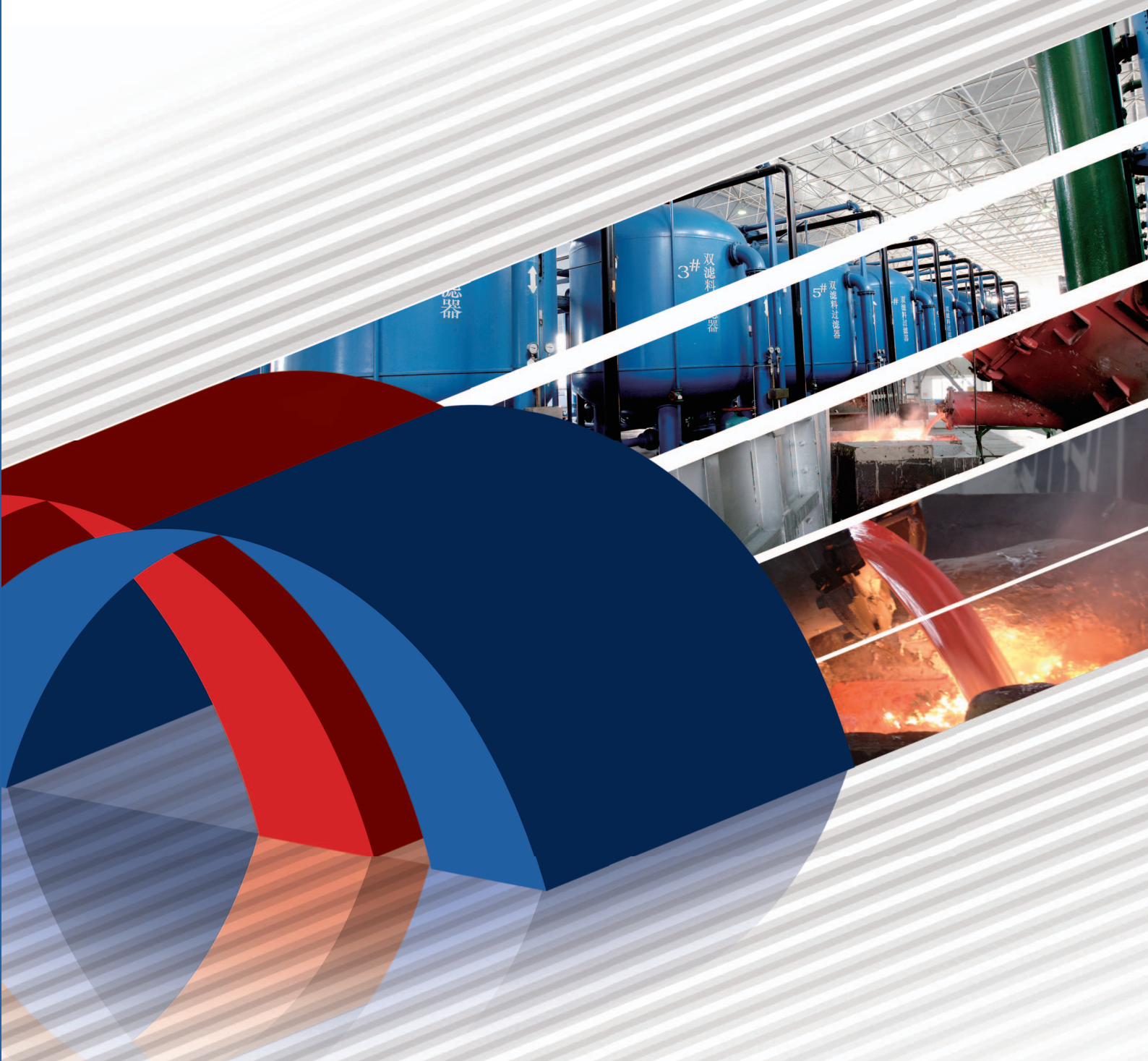




China Hongqiao Group Limited  
中國宏橋集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)  
Stock Code : 01378



# Contents

Corporate Information	2
Financial Highlights	4
Chairman's Statement	5
Management Discussion and Analysis	8
Supplementary Information	16
Report on Review of Interim Condensed Consolidated Financial Statements (Unaudited)	20
Condensed Consolidated Statement of Comprehensive Income (Unaudited)	21
Condensed Consolidated Statement of Financial Position (Unaudited)	22
Condensed Consolidated Statement of Changes in Equity (Unaudited)	23
Condensed Consolidated Statement of Cash Flows (Unaudited)	24
Notes to the Condensed Consolidated Financial Statements (Unaudited)	25

# Corporate Information

## EXECUTIVE DIRECTORS

Zhang Shiping (*Chairman*)  
Zheng Shuliang (*Vice Chairman*)  
Zhang Bo (*Chief Executive Officer*)  
Qi Xingli (*Chief Financial Officer*)

## NON-EXECUTIVE DIRECTORS

Yang Congsen  
Zhang Jinglei

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Xing Jian  
Chen Yinghai  
Han Benwen

## JOINT COMPANY SECRETARIES

Zhang Yuexia  
Ho Wing Yan

## AUDIT COMMITTEE

Han Benwen (*Chairman*)  
Xing Jian  
Chen Yinghai

## NOMINATION COMMITTEE

Xing Jian (*Chairman*)  
Zhang Shiping  
Han Benwen

## REMUNERATION COMMITTEE

Han Benwen (*Chairman*)  
Zhang Shiping  
Xing Jian

## AUTHORISED REPRESENTATIVES

Zhang Bo  
Zhang Yuexia

## COMPLIANCE ADVISOR

Guotai Junan Capital Limited

## PLACE OF BUSINESS IN HONG KONG

43rd Floor, Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

## HEAD OFFICE IN THE PRC

Huixian One Road  
Zouping Economic Development District  
Zouping County  
Shandong Province  
The PRC

## CAYMAN ISLANDS REGISTERED OFFICE

Scotia Centre, 4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman KY1-1112  
Cayman Islands

## LEGAL ADVISOR AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe

## INTERNATIONAL AUDITORS

Deloitte Touche Tohmatsu

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai, Hong Kong

# Corporate Information

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman, KY1-1107  
Cayman Islands

## INVESTOR RELATIONS DEPARTMENT OF THE COMPANY

Wong Yuting  
Tel: (852) 28151080  
Fax: (852) 28150089  
Email: christine@hongqiaochina.com

## STOCK CODE

01378

## LISTING PLACE

Main Board of The Stock Exchange of Hong Kong Limited

## LISTING DATE

24 March 2011

## NUMBER OF ISSUED SHARES AS AT 30 JUNE 2012

5,885,000,000

## INVESTOR RELATIONS AND MEDIA RELATIONS CONSULTANT

Imagination Asia Ltd  
Tel: (852) 3513 1300  
Fax: (852) 3513 1388  
Email: chinahongqiao@imagination.com  
Address: 32nd Floor, Cambridge House  
Taikoo Place  
979 King's Road  
Island East  
Hong Kong

## FINANCIAL YEAR END

31 December

## FINANCIAL CALENDAR

Interim Results Announcement Date  
10 August 2012

## COMPANY WEBSITE

[www.hongqiaochina.com](http://www.hongqiaochina.com)

## Financial Highlights

(Unaudited financial data prepared in accordance with the IFRS)

	For the six months ended 30 June		
	(RMB'000)		
	2012	2011	Change
Revenue	<b>12,596,372</b>	11,335,320	+11.1%
Gross profit	<b>4,074,817</b>	4,049,090	+0.6%
Gross profit margin (%)	<b>32.3</b>	35.7	-3.4p.p.
Net profit margin (%)	<b>22.5</b>	25.6	-3.1p.p.
Net profit attributable to shareholders of the Company	<b>2,840,418</b>	2,906,061	-2.3%
Basic earnings per share (RMB)	<b>0.48</b>	0.53	-9.4%

	As at 30 June		
	(RMB'000)		
	2012	2011	Change
Cash and cash equivalents	<b>6,560,156</b>	7,574,589	-13.4%
Total capital (total equity + total debt)	<b>30,202,274</b>	20,088,685	+50.3%
EBITDA/Interest coverage ratio	<b>18.1</b>	30.9	-12.8 times
Debt/EBITDA (times)	<b>1.11</b>	0.52	+0.59 time
Debt/Total capital	<b>34.8%</b>	23.2%	+11.6 p.p.
Accounts receivable turnover (days)	<b>1</b>	1	±0 day
Accounts payable turnover (days)	<b>23</b>	30	-7 day
Inventory turnover (days)	<b>45</b>	33	+12 days

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") of China Hongqiao Group Limited ("China Hongqiao" or the "Company"), I am pleased to announce the unaudited consolidated interim results report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2012 (the "Period" or "Period under Review").

## UNREMITTING EFFORTS AMID CHALLENGES

The first half of 2012 was a challenging period for the aluminum industry in China. On one hand, the European debt crisis continued to pose uncertainties to the global economic outlook, leading to a drop in aluminum prices. On the other hand, the Republic of Indonesia ("Indonesia") announced in May 2012 that it will impose a tax on ore exports, and the rising cost caused further pressure on the alumina industry in China which also brought the potential risk of rising cost to the aluminum industry. However, China Hongqiao succeeded to alleviate the adverse impact caused by external factors by leveraging on its very competitive business model, the highly efficient and well-structured production, visionary development strategies, and the ability to have a thorough understanding of market trends. As a result, the Group's production and operations continued to experience stable growth. With our outstanding capabilities, we continued to achieve satisfactory results. At the same time, the Group has further strengthened its competitive edge and leading position in the aluminum industry in China through extension of industry chain, integrated production of aluminum and electricity, enhancement of production capacity, as well as our good corporate governance practices.

## RESULTS AND PERFORMANCE

Driven by the State's 12th Five-Year Plan, market demand in the Chinese aluminum industry continued to grow during the Period. The Group has been committed to establishing itself as a competitive enterprise with integration of upstream and downstream businesses, as well as integration of aluminum and electricity. We capitalized on the opportunity to further enhance the production capacity, expand product categories and the industry chain in order to satisfy the needs of the market and customers. As of 30 June 2012, the Group's designed annual production capacity of aluminum products was 1,776,000 tons, ranking as the fourth largest aluminum product manufacturer in China (source: Antaike). At the same time, in order to accommodate the Group's increasing capacity, the Group continued to expand its captive power plants, and optimize its production and efficiency on one hand, and on the other hand, the Group constructed two alumina production lines, with the goals of ensuring the stable supply of raw materials and energy source, and mitigating the impact of price fluctuation of raw materials and energy source.

During the Period under Review, the Group's revenue amounted to approximately RMB12,596,372,000, representing a year-on-year increase of approximately 11.1%. The gross profit reached approximately RMB4,074,817,000, representing a year-on-year increase of approximately 0.6%. Net profit attributable to owners of the Company amounted to approximately RMB2,840,418,000, representing a slight year-on-year decrease of approximately 2.3%. This was primarily due to the fact that the unit sales price of aluminum products dropped as compared to that of the previous year, even though the Group recorded increases in production and sales volumes of aluminum products during the Period. Basic earnings per share were approximately RMB0.48 (Corresponding period in 2011: approximately RMB0.53). The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012.

## Chairman's Statement

During the Period, the Group successfully issued convertible bonds in aggregate of USD150,000,000. The proceeds were used to accelerate the Group's development plans, ensuring the Group is well-prepared for capturing market opportunities and strengthening its structural advantage. We believe that the issuance will contribute to the liquidity of the Group's equity in the capital market in the long run.

### A VISIONARY MARKET LEADER

Under this challenging operating environment, the Group's persistent, visionary development strategies have been proven to be particularly effective. Our captive power plants and self-built power grids have substantially enhanced our cost structure which has been one of the core competitive edges of the Group. Our self-developed alumina production lines will contribute to the stable supply of raw materials and further enhance our cost control ability. Together these have consolidated the Group's unique operating model and mitigated the negative impact caused by external market factors. However, we also realize that the dropping aluminum prices and the bottleneck of upstream bauxite supply have weakened profitability of aluminum manufacturers in China, leading to certain challenges and consolidation in the industry.

Nevertheless, along with the implementation of the State's policies, the positive outlook and momentum of various industries will continue to drive the consumption demand for aluminum products. The Group is expected to benefit from the promising market development of these industries, including infrastructure, indemnificatory housing, transportation, electrical and electronic products. Driven by the targets of the 12th Five-Year Plan promulgated by the State Council, approvals for infrastructure projects have noticeably accelerated in the first half of the year, and investments also increased accordingly. Such planning has greatly advanced infrastructure developments including urban-rail transportation, high-speed rail and freight rail. The Ministry of Housing and Urban-Rural Development confirmed the year 2012 target of commencing 7 million units of indemnificatory housing, of which 5 million units should be essentially completed. The progress of both completing and commencing projects was satisfactory in the first half of the year. It is expected that the development of indemnificatory housing will continue to provide positive support to the aluminum market. Municipal governments have been persistently implementing the Central Government's agricultural and rural economy planning policy in order to accelerate the integration of urban and rural areas, and the development of modern rural communities and small towns has driven huge consumption of aluminum products. As for the market of electrical and electronic products, high-performance electronic materials such as electronic aluminum foil and electrode foil, and new consumer electronics recorded steady growth in demand, driving the downstream demand for aluminum products. The Group is well-positioned to capitalize on the opportunity of the aluminum industry.

### WELL-POSITIONED TO CAPTURE OPPORTUNITIES IN THE MARKET

In the first half of the year, the Group constructed an additional power generator with an installed capacity of 330MW. We expect that the aggregate installed capacity of the captive power plant of the Group will reach 2,730MW by the end of 2012. We aim to further increase the self-supplied electricity ratio of the Group to over 60%, further enhancing our cost advantage and reinforcing our core competitiveness.

## Chairman's Statement

Apart from developing the integration of aluminum and electricity, the Group also strives to promote “the integration of upstream and downstream businesses” in order to extend the industry chain and realize industrial integration. During the Period, the construction of the two production lines of alumina with annual production capacity amounting to 2 million tons was completed in the first half of 2012. The facilities which have been put into operation gradually will satisfy part of the Group's demand for alumina, thereby reducing its reliance on external suppliers. Moreover, this will help the Group further control the production cost.

In addition, the Group also proactively extended its downstream business. By developing the high-end aluminum processing business, the Group aims to optimize its product mix and enhance the added value of its products. During the Period, the aluminum fabrication processing projects with an annual production volume of 30,000 tons commenced production gradually. We believe that the development of the industry chain will strengthen the Group's businesses and its industry cluster advantage.

Despite the various challenges in operation faced by the Chinese aluminum industry, the Group still maintains an optimistic attitude toward the prospect of the industry. Therefore, we set out plans to extend the industry chain, increase production capacity, enhance cost structure and optimize efficiency in order to establish ourselves in a strong position to capitalize on the market opportunities of the aluminum industry. We are confident that, when market conditions improve and start to rebound, China Hongqiao, being one of the leaders of the industry, will be among the first to benefit from the strong market momentum and bring fruitful returns to the shareholders and investors of the Company. In view of the ever-changing market environment, the Group will capture the market trends and continue to promote its competitive advantages, reinforcing its strong foundation for future development.

### APPRECIATION

The Group's long established competitive edges in China aluminum industry are brought about by not only the visionary leadership and excellent execution capability of the management team of the Group, but also the collaboration and dedication of all staff members. 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 relentless efforts and dedication, and also the shareholders and investors who have shown continuous attention and support to the Group. We will continue to adhere to the operating concept of “high efficiency, energy conservation and environmental friendliness” to consolidate our leading position in the PRC and global aluminum markets.

**Zhang Shiping**

*Chairman*

10 August 2012



# Management Discussion and Analysis

## INDUSTRY REVIEW

During the first half of 2012, aluminum manufacturers in China encountered greater challenges in terms of operating environment and profitability. The price of aluminum maintained its downtrend in the first half of the year. The market movement was dominated by factors such as the increase of productivity in Northwest China, expectation towards quantitative easing policy, regulatory policy in the real estate sector and development of the European debt crisis. Up to June 2012, the three-month aluminum futures price quoted on the London Metal Exchange once reached USD1,832 per ton, the lowest since July 2010. It then recovered to USD1,915 per ton on 29 June 2012. And the three-month aluminum futures price on such date on the Shanghai Futures Exchange was RMB15,390 per ton (tax inclusive).

In view of the operating pressure, many enterprises shrank or even closed their production in recent years, causing both direct and indirect impacts to the local development. Therefore, Guangxi region began to carry out electricity subsidy measures in May 2012, causing a production capacity of electrolytic aluminum amounting to over 500,000 tons to re-enter the market. Moreover, similar electricity subsidy measures were promulgated in regions such as Henan, Guizhou and Sichuan. It is expected that the production capacity of aluminum will continue the rising momentum.

According to Antaika, the global production volume of primary aluminum in the first half of 2012 was approximately 23,470,000 tons, representing an increase of approximately 4.7% as compared with that of 2011. As for consumption, the global consumption of primary aluminum in the first half of 2012 amounted to approximately 23,450,000 tons, representing an increase of approximately 3.0% from the corresponding period of the previous year. Both in terms of supply and demand, the growth of the aluminum market in China well exceeded the global market. According to Antaika, the production volume of primary aluminum in China in the first half of 2012 was approximately 10,620,000 tons, representing an increase of approximately 12.6% as compared with the corresponding period of the previous year. Along with the acceleration of urbanization and industrialization in China and the continuous growth in the construction, transportation and electronic sectors, consumption of primary aluminum in China in the first half of the year amounted to approximately 10,590,000 tons, representing an increase of approximately 7.4% as compared with the corresponding period of the previous year.

In addition, the aluminum manufacturers in China faced another challenge – the supply of raw materials. The major raw materials of alumina, bauxite imported from Indonesia, accounted for more than 70% of the total volume consumed in China. In May 2012, the Indonesian government announced it would impose a 20% tariff on 14 metal ores including bauxite, and then ban the export of bauxite in 2014. This will put great pressure on the alumina manufacturers in China and in turn affect the development of the entire production chain of the aluminum industry. It is expected that the high cost of alumina will cause greater impact to the aluminum industry in the coming year, and therefore many enterprises are proactively exploring other overseas resources. Extension to the upstream raw materials business will become the future development trend in the industry. The Group will closely monitor such policies, actively adopt measures such as extending Bauxite supply channels and setting up a joint venture (if possible), so as to handle the possible adverse impacts brought about by such policies. The Directors of the Company believe that, with large-scale procurement advantages and competitive cost advantages, the possible adverse impacts of such policies can be minimized by the Group.

# Management Discussion and Analysis

## BUSINESS REVIEW

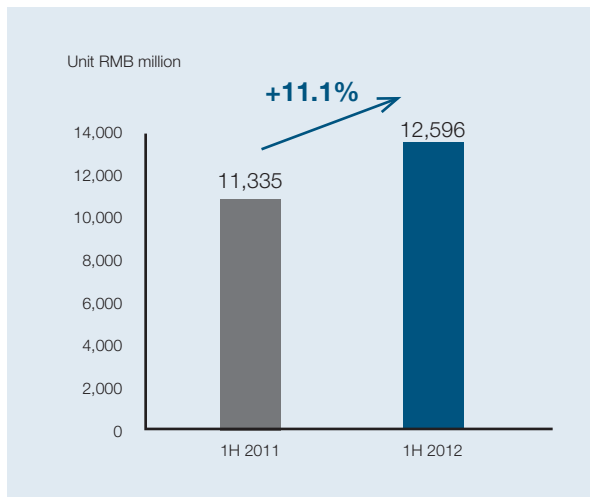
In the first half of 2012, the Group on one hand continued to enhance production capacity and expand its own electricity plant, and on the other hand concentrated on developing production chains, so as to further consolidate the overall competitive edge of China Hongqiao.

As of 30 June 2012, the Group's aggregate designed annual production capacity of aluminum products reached 1,776,000 tons, maintaining its position as the fourth largest aluminum product manufacturer in China (corporate ranking source: Antaike). Given the increasing demand from our customers, the Group's total output in the first half of the year amounted to approximately 898,296 tons, representing a year-on-year increase of approximately 17.3%. Output of aluminum alloy casting-rolling products reached approximately 13,793 tons.

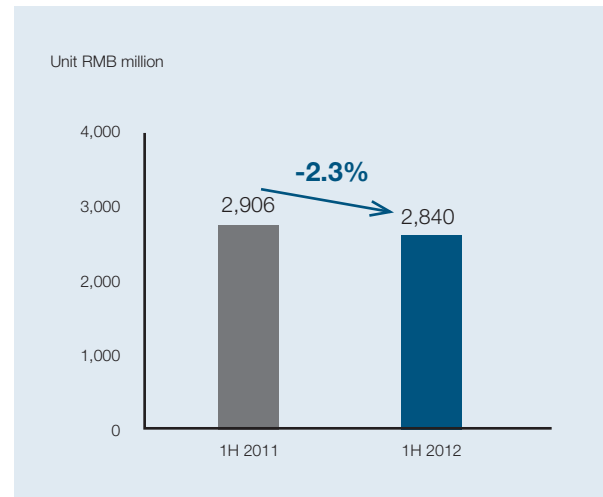
During the Period, in addition to our production bases in Zouping, Weiqiao and Binzhou, the Group started to establish the fourth production base in Huimin.

The Group's unaudited revenue and net profit attributable to owners of the Company for the six months ended 30 June 2012, with comparison figures for the six months ended 30 June 2011, are as follows:

### Unaudited Revenue



### Unaudited Net profit attributable to shareholders of the Company



## Management Discussion and Analysis

For the six months ended 30 June 2012, the Group recorded revenue of approximately RMB12,596,372,000, representing a year-on-year growth of approximately 11.1%, which was mainly due to increases in the Group's production volumes and sales volumes of aluminum products compared with the corresponding period of the previous year. During the Period, the sales volume of the Group's aluminum products was approximately 895,565 tons, representing an increase of approximately 17.4% from approximately 762,718 tons in the same period of the previous year. The average selling price of our aluminum products decreased by approximately 5.0% from approximately RMB14,405 per ton (excluding VAT) in the first half of 2011 to approximately RMB13,680 per ton (excluding VAT) in the first half of 2012.

For the six months ended 30 June 2012, net profit attributable to owners of the Company amounted to approximately RMB2,840,418,000, representing a slight decrease of approximately 2.3%, mainly due to the fact that although the Group recorded increases in both production volume and sales volume of aluminum products during the Period, the unit selling price of aluminum products compared with the same period of last year decreased while the unit production cost remained stable, leading to a narrow profit.

The tables below are a comparison of the breakdown of revenue by product for the six months ended 30 June 2012 and 2011:

Products	Unaudited			
	For the six months ended 30 June			
	2012		2011	
	Revenue RMB'000	Proportion of sales revenue to total revenue %	Revenue RMB'000	Proportion of sales revenue to total revenue %
Molten aluminum alloy	8,047,475	63.9	8,447,972	74.5
Aluminum alloy ingots	4,004,124	31.8	2,506,330	22.1
Aluminum busbars	107,062	0.9	32,822	0.3
Aluminum alloy casting-rolling products	92,384	0.7	–	–
Steam	345,327	2.7	348,196	3.1
Total	12,596,372	100.0	11,335,320	100.0

As for our products, the Group's revenue derived from aluminum products was approximately RMB12,251,045,000, accounting for approximately 97.3% of total revenue for the six months ended 30 June 2012. 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 increased accordingly. Revenue derived from sales of steam was approximately RMB345,327,000, accounting for approximately 2.7% of our total revenue.

## Management Discussion and Analysis

With a view to further consolidate our cost advantage and cope with the additional production capacity, the Group expanded its captive power production facilities as planned to increase the self-supplied electricity ratio. In the first half of 2012, the Group installed an additional power generator with an installed generation capacity of 330MW which increased the total installed capacity to 2,070MW.

At the same time, the Group realized industrial integration through effective control over the steady supply of upstream raw materials. In the first half of the year, two production lines for alumina were successfully established, our production base in Zouping with total annual production capacity amounting to 2 million tons. The two production lines have commenced production one after the other during the first half of the year. During the Period, the quantity of self-produced alumina of the Group accounted for 26.3% of the total consumption of alumina of the Group.

### 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 six months ended 30 June 2012 and 2011:

Products	Unaudited					
	For the six months ended 30 June					
	2012			2011		
	Revenue	Gross profit	Margin	Revenue	Gross profit	Margin
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Aluminum products	12,251,045	3,987,820	32.6	10,987,124	3,955,774	36.0
Steam	345,327	86,997	25.2	348,196	93,316	26.7
Total:	12,596,372	4,074,817	32.3	11,335,320	4,049,090	35.7

For the six months ended 30 June 2012, the overall gross profit margin of the Group's products decreased by approximately 3.4 percentage points to approximately 32.3% as compared with approximately 35.7% for the corresponding period of last year. This was mainly due to a decrease in the sales price of aluminum products in the Period compared with the corresponding period of last year while the unit production cost remained stable. With the increasing installed capacity of our captive power production facilities, the Group expects the percentage of self-supply electricity to rise, and at the same time, the gradual commencement of production of the Group's alumina production lines will bring a positive impact to our overall gross profit margin.

#### Distribution and selling expenses

The Group's distribution and selling expenses increased by approximately 80.5% to approximately RMB28,909,000 for the six months ended 30 June 2012 from approximately RMB16,018,000 for the corresponding period of last year, which was mainly attributable to an increase in transportation costs as a result of the increase in sales volume of the Group's aluminum products, an increased proportion of sales volume of aluminum alloy ingots to total sales volume and an increase in transportation unit cost.

# Management Discussion and Analysis

## Administrative expenses

Administrative expenses of the Group for the six months ended 30 June 2012 amounted to approximately RMB131,264,000, representing an increase of approximately 58.3% as compared with approximately RMB82,897,000 for the corresponding period of last year. Such an increase was mainly due to an increase in the number of administrative staff and their remuneration brought by the expansion of the Group's production scale. On the other hand, this was also due to 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 six months ended 30 June 2012, other expenses of the Group amounted to approximately RMB11,225,000, which were mainly due to the fees of professional parties engaged by the Group.

## Finance costs

For the six months ended 30 June 2012, finance costs of the Group were approximately RMB259,684,000, representing an increase of approximately 94.7% as compared with approximately RMB133,364,000 for the corresponding period of the previous year. This was mainly due to an increase in bank loans as compared with the corresponding period of the previous year, resulting in a rise in interest expenses charged to the Group.

## Liquidity and financial resources

As at 30 June 2012, cash and cash equivalents of the Group were approximately RMB6,560,156,000, representing a decrease of approximately 12.4% as compared with that of approximately RMB7,484,795,000 as at 31 December 2011, mainly due to the significant capital expenses during the Period.

The Group principally satisfies its demand for operating capital through cash inflow from operations. For the six months ended 30 June 2012, the Group had a net cash outflow from investing activities of approximately RMB5,791,557,000, a net cash inflow from financing activities of approximately RMB1,342,877,000 and a net cash inflow from operating activities of approximately RMB3,524,041,000.

For the six months ended 30 June 2012, the capital expenditures of the Group amounted to approximately RMB5,577,482,000, mainly for the expansion of its aluminum production capacity and the investment in its captive power production facilities.

As at 30 June 2012, the Group had a capital commitment of approximately RMB11,146,532,000, 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. The Group had a capital commitment of approximately RMB3,947,097,000 which was used to construct high-end aluminum processing projects and it was expected to be fully paid up by 2015; the capital commitment of approximately RMB5,751,107,000 was used to construct captive power plants and it was expected to be fully paid up by 2014.

# Management Discussion and Analysis

For the six months ended 30 June 2012, the Group's average turnover days of trade receivables was approximately 1 day, which was the same as compared with approximately 1 day for the corresponding period of the previous year. This 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 a credit period of not more than 90 days, therefore, the Group's trade receivables turnover period was generally quite short.

For the six months ended 30 June 2012, the Group's turnover days of inventory was approximately 45 days, representing an increase of 12 days as compared with approximately 33 days for the corresponding period of the previous year, mainly as a result of an increase in production scale of the Group, which in turn led to an increase in the inventory of raw materials required for its production, and an increase in work-in-process products as a result of the operation of the new production line for aluminum products.

## Income tax

The Group's income tax for the first half of 2012 amounted to approximately RMB1,019,400,000, representing a decrease of approximately 1.4% as compared with approximately RMB1,033,896,000 for the corresponding period of the previous year, which was mainly attributable to the decrease 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 RMB2,840,418,000 for the six months ended 30 June 2012, representing a decrease of approximately 2.3% as compared with approximately RMB2,906,061,000 for the corresponding period of the previous year. Basic earnings per share of the Company for the Period were approximately RMB0.48.

## Interim dividends

The Directors do not recommend any interim dividends for the six months ended 30 June 2012 (Corresponding period in 2011: Nil).

## Capital structure

The Group has built an appropriate liquidity risk management framework to manage its short, medium and long-term funding and to satisfy our liquidity management requirements. Cash and cash equivalents of the Group amounted to approximately RMB6,560,156,000 as at 30 June 2012 (31 December 2011: approximately RMB7,484,795,000) and were mainly deposited with commercial banks. As at 30 June 2012, the total liabilities of the Group amounted to approximately RMB15,165,778,000 (31 December 2011: approximately RMB11,272,014,000). Gearing ratio (total liabilities to total equity) was approximately 77.0% (31 December 2011: approximately 61.3%).

## Management Discussion and Analysis

As at 30 June 2012, the Group's total bank loans were approximately RMB8,040,739,000. The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage its interest expenses. As at 30 June 2012, approximately 49.2% of the Group's bank borrowings were subject to fixed interest rates while the remaining approximately 50.8% were subject to floating interest rates.

The Group used its overseas subsidiaries' shares and land use rights for its bank borrowings as collateral and financing for its daily operations and project construction. As at 30 June 2012, for the purpose of obtaining bank loans, the Group had pledged all the equity interests of three overseas subsidiaries for borrowings of approximately RMB1,110,300,000 (31 December 2011: approximately RMB1,108,703,000); and had secured the land use rights with carrying value amounted to approximately RMB32,361,000 for borrowings of approximately RMB17,000,000 (31 December 2011: approximately RMB17,000,000).

The Group maintains a balance between the continuity and flexibility of funds through bank loans. As at 30 June 2012, approximately 34.4% of the Group's bank borrowings will become due within one year.

As at 30 June 2012, the Group's bank borrowings were mostly denominated in RMB and US dollars accounting for approximately 84.9% and 15.1% of the total bank borrowings, respectively. Cash and cash equivalents were mainly held in RMB, US dollars and HK dollars, of which 0.7% was held in US dollars and 0.2% of the cash and cash equivalents was held in HK dollars.

### Employee and remuneration policy

As at 30 June 2012, the Group had a total of 23,576 employees, representing an increase of 9,264 employees as compared with the corresponding period of the previous year. As a result of the expansion of its production capacity, the Group recruited additional staff to meet the requirements of its production. During the Period, total staff costs of the Group amounted to approximately RMB440,734,000, representing 3.5% of our total revenue. The remuneration packages of our employees include salary and various types of benefits.

In addition, the Group 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 RMB. As certain bank balances and borrowings are denominated in foreign currencies, we are exposed to certain currency risks. As of 30 June 2012, our bank balances denominated in foreign currencies were approximately RMB56,817,000 and bank borrowings were approximately RMB1,213,341,000. For the six months ended 30 June 2012, the Group recognized foreign exchange loss of approximately RMB13,138,000.

The Group has not used any financial instruments to hedge against currency risk.

# Management Discussion and Analysis

## OUTLOOK

China Hongqiao has long understood that vertical integration of the industry chain will be the development trend of the industry – the key to success of an aluminum enterprise is to strive to reduce the production cost through self-sufficiency in electricity and business operations by way of extension in upstream and downstream business.

For the upstream business, as the Group's alumina production lines have been put into operation. Our next target is to keep a close eye on other resources, in particular bauxite, to ensure the stable supply of raw materials and effective control of cost and quality for further consolidation of our cost advantage.

As for the downstream business, the Group is preparing for appropriate development of high-end processing project. The Group will first familiarize itself with the needs of the market and customers through relatively small-scale projects and then carry out further development after we accumulate more experience in project construction and operation.

The Group firmly believes that the development outlook of the aluminum industry in China is optimistic. Along with the sustained growth in the demand of customers of downstream business, we will continue to enhance our production capacity and quality to meet the needs of our customers. In the meantime, we will enhance our captive power plants and the production of alumina and proactively realize the integration of upstream and downstream businesses as well as integration of aluminum and electricity, so as to demonstrate the core advantage of China Hongqiao and consolidate its leading position in the industry.



## Supplementary Information

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2012, so far as it is known to any Directors, supervisors and chief executive of the Company, the following persons (other than the Directors, supervisors or chief executive of the Company) had, or were deemed or taken to have 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 of Hong Kong Limited ("Hong Kong Stock Exchange") under the provisions of Divisions 2 and 3 of Part XV of The Securities and Future Ordinance (the "SFO").

### SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As of 30 June 2012, so far as it is known to any Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which were required to be entered in the register maintained by the Company pursuant to Section 336 of Part XV of the SFO as follows:

Name of shareholder	Capacity/type of interest	Total number of shares held	Approximate percentage of shareholding in the issued share capital (%)
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
Prosperity Eastern Limited <sup>(3)</sup>	Trustee	5,000,000,000	84.96
China Hongqiao Holdings Limited ("Hongqiao Holdings")	Beneficiary	5,000,000,000	84.96

Notes:

- <sup>(1)</sup> Mr. ZHANG Shiping 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.
- <sup>(2)</sup> Ms. ZHENG Shuliang, the spouse of Mr. ZHANG Shiping, is deemed to be interested in all the shares of the Company in which Mr. ZHANG Shiping is interested.
- <sup>(3)</sup> Prosperity Eastern Limited held these shares as trustee on behalf of Mr. ZHANG Shiping.

Save as disclosed above, as of 30 June 2012, 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.

## Supplementary Information

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2012, the Directors or chief executive of the Company and their respective associates had the following interests in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register required to be kept by the Company pursuant to Section 352 of the SFO; or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:

#### Long positions in the shares of the Company

Name of director	Capacity/type of interest	Number of total shares held	Approximate percentage of shareholding in the issued share capital (%)
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 investment company Hongqiao Holdings.

(2) Ms. ZHENG Shuliang, the spouse of Mr. ZHANG Shiping, is deemed to be interested in all the shares of the Company in which Mr. ZHANG Shiping is interested.

Save as disclosed above, as of 30 June 2012, none of the Directors or the chief executive of the Company had an interest or short position 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) which was required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those interests or short positions they are taken or deemed to have under such provisions of the SFO), or entered in the register required to be kept by the Company pursuant to Section 352 of the SFO, or notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 June 2012 and up to the date of this report, 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 shares in, or debentures of, the Company or any other body corporate, 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 equity or debt securities of the Company or any other body corporate or had exercised any such right.

# Supplementary Information

## AUDIT COMMITTEE

The Company has established an audit committee (the “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 10 August 2012 to review the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012. The Audit Committee considered that the interim financial results for the six months ended 30 June 2012 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

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 30 June 2012 and up to the date of this report.

## COMPLETION OF ISSUE OF CONVERTIBLE BONDS

Pursuant to the announcement dated 21 March 2012 in relation to the proposed issue of US\$150,000,000 6.5% convertible bonds due 2017, all conditions precedent under the Subscription Agreement have been satisfied (or waived) and completion of the Subscription Agreement took place on 10 April 2012.

Approval has been granted for the listing of the Convertible Bonds on the Singapore Exchange Securities Trading Limited (“SGX-ST”). The Convertible Bonds have been listed and quoted on the SGX-ST with effect from 9:00 a.m. 11 April 2012. The approval in-principle granted for the listing of the Convertible Bonds on the SGX-ST is not to be taken as an indication of the merits of the Convertible Bonds. Approval for the listing of, and permission to deal in, the Conversion Shares has been granted by the Hong Kong Stock Exchange.

## 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 six months ended 30 June 2012 and up to the date of this report.

# Supplementary Information

## 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 Hong Kong Stock Exchange (“Listing Rules”). For the six months ended 30 June 2012, the Company is in compliance with the mandatory code provisions of the CG Code, except for the following derivation mentioned below.

Pursuant to Code A.1.8 of the CG Code, issuers should arrange appropriate insurance coverage for directors’ liabilities in respect of legal actions against the directors. As at 30 June 2012, the Group has not yet identified any insurer who would provide insurance service to the Group at satisfactory commercial terms. As such, the Group has not yet arranged appropriate insurance coverage in respect of legal actions against directors of the Company. Having consulted the directors, we are of the view that if we cannot identify any insurer in the market who would provide insurance service to the Group at satisfactory commercial terms, it would increase the financial burden of the Group or could not give sufficient protection to our directors, under such circumstances, the directors agree not to have appropriate insurance cover for liabilities in respect of legal actions against them.

## DISCLOSURE OF INFORMATION ON WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This interim report is published on the website of the Hong Kong Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and the Company’s website at [www.hongqiaochina.com](http://www.hongqiaochina.com). The interim report will be dispatched to shareholders on or before 31 August 2012 and will be available on the Company’s website and the website of the Hong Kong Stock Exchange at the same time.

# Report on Review of Interim Condensed Consolidated Financial Statements

**TO THE BOARD OF DIRECTORS OF CHINA HONGQIAO GROUP LIMITED**

## **INTRODUCTION**

We have reviewed the condensed consolidated financial statements of China Hongqiao Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 40, which comprises the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard("IAS") 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **SCOPE OF REVIEW**

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.



**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

10 August 2012

# Condensed Consolidated Statement of Comprehensive Income (Unaudited)

For the six months ended 30 June 2012

	NOTES	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Revenue	3	<b>12,596,372</b>	11,335,320
Cost of sales		<b>(8,521,555)</b>	(7,286,230)
Gross profit		<b>4,074,817</b>	4,049,090
Other income and gain and loss	4	<b>186,284</b>	138,988
Distribution and selling expenses		<b>(28,909)</b>	(16,018)
Administrative expenses		<b>(131,264)</b>	(82,897)
Finance costs	5	<b>(259,684)</b>	(133,364)
Other expenses		<b>(11,225)</b>	(15,842)
Changes in fair value of compound derivative	17	<b>29,799</b>	–
Profit before taxation	7	<b>3,859,818</b>	3,939,957
Income tax expense	6	<b>(1,019,400)</b>	(1,033,896)
Profit and total comprehensive income for the period		<b>2,840,418</b>	2,906,061
Earnings per share	9		
Basic (RMB)		<b>0.480</b>	0.530
Diluted (RMB)		<b>0.476</b>	N/A

# Condensed Consolidated Statement of Financial Position (Unaudited)

At 30 June 2012

	NOTES	At 30 June 2012 RMB'000 (Unaudited)	At 31 December 2011 RMB'000 (Audited)
<b>Non-current Assets</b>			
Property, plant and equipment	10	21,403,157	16,424,458
Prepaid lease payments – non-current portion	11	1,034,233	937,128
Deferred tax assets		45,394	43,616
Deposits paid for acquisition of property, plant and equipment		1,246,144	1,400,011
		<b>23,728,928</b>	18,805,213
<b>Current Assets</b>			
Inventories		2,309,579	1,908,646
Trade receivables	12	12,091	1,438
Bills receivable	13	1,418,577	1,312,960
Prepayments and other receivables		154,154	121,802
Prepaid lease payments – current portion	11	21,929	19,726
Restricted bank deposits	14	661,445	14,468
Bank balances and cash		6,560,156	7,484,795
		<b>11,137,931</b>	10,863,835
<b>Current Liabilities</b>			
Trade payables	15	967,760	1,216,259
Bills payable	16	200,000	–
Other payables		3,360,818	2,644,583
Dividends payables		143	–
Income tax payable		289,508	137,879
Bank borrowings – due within one year	18	2,764,052	3,210,610
		<b>7,582,281</b>	7,209,331
<b>Net Current Assets</b>		<b>3,555,650</b>	3,654,504
<b>Total Assets less Current Liabilities</b>		<b>27,284,578</b>	22,459,717
<b>Capital and Reserves</b>			
Share capital	19	386,206	386,206
Share premium and reserves		19,314,875	18,010,828
<b>Total Equity</b>		<b>19,701,081</b>	18,397,034
<b>Non-current liabilities</b>			
Bank borrowings – due after one year	18	5,276,687	3,981,593
Other borrowings	18	1,341,822	–
Deferred tax liabilities		46,356	81,090
Convertible bonds – Liability component	17	715,028	–
Convertible bonds – Derivative component	17	203,604	–
		<b>7,583,497</b>	4,062,683
		<b>27,284,578</b>	22,459,717

# Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2012

	Share capital RMB'000	Share premium RMB'000	Equity reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012 (audited)	<b>386,206</b>	<b>4,832,946</b>	<b>793,349</b>	<b>1,849,484</b>	<b>10,535,049</b>	<b>18,397,034</b>
Profit and total comprehensive income for the period	-	-	-	-	<b>2,840,418</b>	<b>2,840,418</b>
Dividend declared	-	-	-	-	<b>(1,536,371)</b>	<b>(1,536,371)</b>
At 30 June 2012 (unaudited)	<b>386,206</b>	<b>4,832,946</b>	<b>793,349</b>	<b>1,849,484</b>	<b>11,839,096</b>	<b>19,701,081</b>
At 1 January 2011 (audited)	69	-	793,349	1,028,660	5,480,463	7,302,541
Profit and total comprehensive income for the period	-	-	-	-	2,906,061	2,906,061
Capitalisation of share premium	328,059	(328,059)	-	-	-	-
Issue of shares	58,078	5,306,954	-	-	-	5,365,032
Transaction costs attributable to issue of shares	-	(145,949)	-	-	-	(145,949)
At 30 June 2011 (unaudited)	386,206	4,832,946	793,349	1,028,660	8,386,524	15,427,685



# Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 RMB'000 (unaudited)	2011 RMB'000 (unaudited)
Net cash generated from operating activities	<b>3,524,041</b>	3,307,218
Purchases of property, plant and equipment	<b>(5,050,608)</b>	(4,039,677)
Addition to prepaid lease payments	<b>(110,063)</b>	(159,922)
Interest received	<b>16,091</b>	7,681
Placement of restricted bank deposits	<b>(705,900)</b>	83,499
Withdraw of restricted bank deposits	<b>58,923</b>	(1,640)
Net cash used in investing activities	<b>(5,791,557)</b>	(4,110,059)
Proceeds from issue of shares	–	5,365,032
Shares issue expenses paid	–	(140,360)
Dividends paid	<b>(1,536,228)</b>	–
Proceeds from issue of convertible bonds	<b>945,525</b>	–
Payment of transaction costs on issue of convertible bonds	<b>(27,765)</b>	–
New bank borrowings raised	<b>6,226,084</b>	700,000
Other borrowings raised	<b>1,341,822</b>	–
Interest paid	<b>(229,013)</b>	(143,961)
Repayments of borrowings	<b>(5,377,548)</b>	(72,850)
Net cash generated from financing activities	<b>1,342,877</b>	5,707,861
Net increase in cash and cash equivalents	<b>(924,639)</b>	4,905,020
Cash and cash equivalents at 1 January	<b>7,484,795</b>	2,669,569
Cash and cash equivalents at 30 June, represented by bank balances and cash	<b>6,560,156</b>	7,574,589

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 1. GENERAL AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands and its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 24 March 2011. Its parent and ultimate holding company is China Hongqiao Holdings Limited ("Hongqiao Holding"), a company incorporated in the British Virgin Island. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, KY1-1112, Cayman Islands, and its principal place of business is located at Huixian One Road, Zouping Economic Development District, Zouping County, Shandong Province, the People's Republic of China ("PRC"). The Company is an investment holding company.

The Company's subsidiaries are principally engaged in the business of manufacture and sales of aluminum products.

The condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs"):

- amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets; and
- amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

The application of the above amendments to IFRSs in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

In addition, the Group issued convertible bonds with a principal amount of US\$150,000,000 (see Note 17) during the current interim period. The accounting policy is set out as below:

Convertible bonds issued by the Group that contain both liability and multiple embedded derivatives (including conversion option that will be settled other than by the exchange of fixed amount of cash or another financial instrument for a fixed number of the Company's own equity instruments and redemption options) are classified separately into respective items on initial recognition. Multiple embedded derivatives are generally treated as a single compound derivative. At the date of issue, both the liability and the compound derivative components are recognised at fair value.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The compound derivative component is measured at fair value with changes in fair value recognised in profit or loss. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and compound derivative components in proportion to their relative fair values. Transaction costs relating to the compound derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

## 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 revenue analysis by products and revenue from steam supply and does not contain profit information by product line or profit from steam supply. 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 is presented.

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

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

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Revenue from sales of goods		
Aluminum products		
– molten aluminum alloy	8,047,475	8,447,972
– aluminum alloy ingots	4,004,124	2,506,330
– aluminum busbars	107,062	32,822
– aluminum alloy casting-rolling plate	92,384	–
Steam supply income	345,327	348,196
	<b>12,596,372</b>	11,335,320

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 4. OTHER INCOME AND GAIN AND LOSS

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interest income	16,091	7,681
Net gain on sales of raw materials (note)	16,755	20,324
Revenue from sales of slag of carbon anode blocks	140,487	126,371
Foreign exchange losses, net	(13,138)	(27,969)
Others	26,089	12,581
	<b>186,284</b>	138,988

Note:

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Proceeds from sales of raw materials		
– other materials and accessories	30,776	24,036
Cost and expenses related to sales of raw materials	(14,021)	(3,712)
	<b>16,755</b>	20,324

## 5. FINANCE COSTS

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Interest expenses on bank borrowings		
– wholly repayable within five years	262,002	143,961
Interest expenses on convertible bonds (Note 17)	23,817	–
Interest expenses on other borrowings	4,261	–
Transaction cost for convertible bonds	6,854	–
Less: amount capitalised	(37,250)	(10,597)
Total	<b>259,684</b>	133,364

Borrowing costs capitalised during the period are calculated by applying a capitalisation rate of 7.23% (six months ended 30 June 2011: 6.51%) per annum to expenditure on qualifying assets.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
The charge comprises:		
Current tax		
Enterprise income tax in mainland China	974,822	993,281
Deferred tax	44,578	40,615
	<b>1,019,400</b>	1,033,896

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 People's Republic of China 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.

## 7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Depreciation of property, plant and equipment	598,543	384,976
Cost of inventories recognised as an expense	8,479,146	7,234,575
Amortisation of prepaid lease payments	10,755	3,355
Listing expenses	–	15,842

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 8. DIVIDENDS

Dividends recognised as distribution during the period:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
2011 final dividends – HK\$32.0 cents per share	1,536,371	–

The final dividend of HK\$1,883,200,000 (equivalent to approximately RMB1,536,371,000) in respect of the year ended 31 December 2011, was approved by shareholders in the annual general meeting in May 2012. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 and six months ended 30 June 2011.

## 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Earnings for the purpose of basic earnings per share	2,840,418	2,906,061
Effect of effective interest on the liability component of convertible bonds (Note 17)	23,817	N/A
Effect of gain recognised on the compound derivative component of convertible bonds (Note 17)	(29,799)	N/A
Earnings for the purpose of diluted earnings per share	2,834,436	N/A

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 9. EARNINGS PER SHARE (CONTINUED)

Weighted average number of shares	Six months ended 30 June	
	2012 '000 shares	2011 '000 shares
Weighted average number of ordinary shares for the purpose of basic earnings per share	5,885,000	5,476,917
Effect of conversion of convertible bonds	73,478	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	5,958,478	N/A

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the period ended 30 June 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.

During the six months ended 30 June 2011, no diluted earnings per share is presented as there is no potential ordinary shares outstanding.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2012, the Group purchased property, plant and equipment approximately RMB205,568,000 (six months ended 30 June 2011: approximately RMB79,632,000), disposed approximately RMB247,000 (six months ended 30 June 2011: Nil), and spent approximately RMB5,371,914,000 (six months ended 30 June 2011: RMB4,239,911,000) on the construction of its new product lines and power plant.

## 11. PREPAID LEASE PAYMENTS

The prepaid lease payments represent land use rights with the lease terms of 41 to 50 years in Mainland China. During the current period, the Group acquired three land use rights of approximately RMB110,063,000 (six months ended 30 June 2011: RMB159,922,000).

As at 30 June 2012, the Group was in the process of obtaining land use right certificates for the land in the PRC amounting to approximately RMB110,063,000. In the opinion of the directors of the Company, the Group is entitled to lawfully and validly occupy and use the above-mentioned land use rights and not required to incur significant additional cost in obtaining the land use right certificates for the land in the PRC.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 12. TRADE RECEIVABLES

The Group has a policy of allowing credit period of no more than 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>At 30 June 2012 RMB'000</b>	At 31 December 2011 RMB'000
0 – 90 days	<b>12,091</b>	1,438

## 13. BILLS RECEIVABLE

The aged analysis of bills receivable presented based on the issue date at the reporting date is as follows:

	<b>At 30 June 2012 RMB'000</b>	At 31 December 2011 RMB'000
0 – 90 days	<b>394,448</b>	700,690
91 – 180 days	<b>1,024,129</b>	612,270
	<b>1,418,577</b>	1,312,960

At 30 June 2012, bills receivable of approximately RMB1,357,042,000 (At 31 December 2011: RMB1,286,260,000) were endorsed with recourse to third parties and corresponding trade payables of RMB871,484,000 (At 31 December 2011: RMB1,286,260,000) and other payables of RMB485,558,000 (At 31 December 2011: Nil) were included in the condensed consolidated statement of financial position accordingly.

## 14. RESTRICTED BANK DEPOSITS

At 30 June 2012, restricted bank deposits of approximately RMB661,445,000 (At 31 December 2011: RMB14,468,000) represent the Group's bank deposits pledged to banks to secure certain short term facilities granted to the Group by banks, including approximately RMB561,445,000 (At 31 December 2011: approximately RMB14,468,000) for issuance of letter of credit and RMB100,000,000 (At 31 December 2011: Nil) for issuance of bills payable.

The restricted bank deposits carry market interest rate of 0.36% to 0.5% per annum as at 30 June 2012 (31 December 2011: 0.36% to 0.5%).



# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 15. TRADE PAYABLES

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period on purchases of goods is between 30 days and 180 days.

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

	<b>At 30 June 2012 RMB'000</b>	At 31 December 2011 RMB'000
0 – 180 days	964,445	1,202,549
181 – 365 days	1,965	12,597
1 – 2 years	1,339	798
Over 2 years	11	315
	<b>967,760</b>	1,216,259

## 16. BILLS PAYABLE

The aged analysis of bills payable presented based on the issue date at the reporting date is as follows:

	<b>At 30 June 2012 RMB'000</b>	At 31 December 2011 RMB'000
0 – 90 days	200,000	–

## 17. CONVERTIBLE BONDS

On 10 April 2012, the Company issued a 6.5% Convertible Bond due 2017 in the aggregate principal amount of US\$150,000,000 (the “Convertible Bonds”). The Convertible Bonds are listed on Singapore Exchange Securities Trading Limited.

The principal terms of the Convertible Bonds are as follows:

### (a) Optional conversion

The Convertible Bonds will, at the option of the holder (“Bondholders”), be convertible (unless previously converted, redeemed or purchased and cancelled) on or after 21 May 2012 up to and including 1 April 2017 into fully paid ordinary shares with a par value of US\$0.01 each at an initial conversion price (the “Conversion Price”) of HK\$7.27 per share and a fixed exchange rate of HK\$7.7623 to US\$1.00 (the “Prevailing Rate”). The Conversion Price is subject to adjustments in the manner set out in the Convertible Bonds agreement.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 17. CONVERTIBLE BONDS (CONTINUED)

### (a) Optional conversion (continued)

As disclosed in Note 8, a final dividend of HK\$32.0 cents per share for the year ended 31 December 2011 was approved in the annual general meeting in May 2012. Pursuant to the Convertible Bonds agreement, the Conversion Price per share will be adjusted from HK\$7.27 to HK\$6.81 effective from 24 May 2012.

### (b) Redemption

#### – Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem the Convertible Bonds at the principal amount together with unpaid accrued interest thereon on 10 April 2017.

#### – Redemption at the option of the Company

On giving not less than 30 nor more than 90 days' notice, the Company may at any time after 10 April 2015 redeem all, but not some only, of the Convertible Bonds for the time being outstanding at the principal amount, together with interest accrued but unpaid to the date fixed for redemption, provided that the closing price of the Shares translated into US\$ at the Prevailing Rate applicable to the relevant trading day for 20 out of 30 consecutive trading day prior to the date upon which notice of such redemption is published, was at least 130 percent of the principal amount of the Convertible Bonds divided by the Conversion Price.

On giving not less than 30 nor more than 60 days' notice, the Company may redeem all, but not some only, of the Convertible Bonds for the time being outstanding at the principal amount, together with interest accrued to the date fixed for redemption provided that prior to the date of such notice at least 90 per cent in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

#### – Redemption at the option of the Bondholders

The Company will at the option of the Bondholder, redeem all or some of the Convertible Bonds on 10 April 2015 at the principal amount together with interest accrued to the date fixed for redemption.

The Convertible Bonds comprised of two components:

- (i) Liability component is initially measured at fair value amounted to approximately RMB712,122,000. It is subsequently measured at amortised cost by applying an effective interest rate of 14.70% after considering the effect of the transaction costs.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 17. CONVERTIBLE BONDS (CONTINUED)

### (b) Redemption (continued)

#### – Redemption at the option of the Bondholders (continued)

(ii) Compound derivative component comprise:

- Redemption option of Bondholders;
- Redemption option of the Company;
- Conversion option of the Bondholders.

Transaction costs that relate to the issue of the Convertible Bonds are allocated to the liability and the compound derivative (including conversion option and redemption options) components in proportion to their relative fair values. Transaction costs amounting to approximately RMB6,854,000 relating to the compound derivative component were charged to profit or loss immediately and included in finance costs. Transaction costs amounting to approximately RMB20,911,000 relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the Convertible Bonds using the effective interest method.

The Convertible Bonds were valued at fair value by the directors with reference to valuation carried out by an independent valuation firm, Grant Sherman Appraisal Limited. The fair value of the compound derivative component was calculated using Binomial Option Pricing Model. The major inputs used in the models as at 10 April 2012 and 30 June 2012 were as follows:

	10 April 2012	30 June 2012
Stock price	HK\$4.68	HK\$3.61
Exercise price	HK\$7.27	HK\$6.81
Risk-free rate	0.543%	0.386%
Expected life	5 years	4.78 years
Volatility	48.88%	47.32%

The risk free rates were determined with reference to the Hong Kong Exchange Fund Notes Yields. The expected lives were estimated based on the terms of the Convertible Bonds. The volatilities were determined based on the historical price volatilities of comparable companies under the same periods as the expected lives.

Any changes in the major inputs into the model will result in changes in the fair value of the compound derivative component.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 17. CONVERTIBLE BONDS (CONTINUED)

### (b) Redemption (continued)

#### – Redemption at the option of the Bondholders (continued)

The movement of the liability and compound derivative component of the Convertible Bonds for the period is set out below:

	Liability component RMB'000	Compound derivative component RMB'000	Total RMB'000
Convertible bonds issued on 10 April 2012	712,122	233,403	945,525
Transaction costs	(20,911)	–	(20,911)
Interest charged during the period			
from 10 April 2012 to 30 June 2012 (Note 5)	23,817	–	23,817
Changes in fair value during the period			
from 10 April 2012 to 30 June 2012	–	(29,799)	(29,799)
As at 30 June 2012	715,028	203,604	918,632

No conversion or redemption of the Convertible Bonds has occurred up to 30 June 2012.

## 18. BANK AND OTHER BORROWINGS

During the current period, the Group obtained new bank loans amounting to approximately RMB6,226,084,000 (Six months ended 30 June 2011: RMB700,000,000) and repaid bank loans amounting to RMB5,377,548,000 (Six months ended 30 June 2011: RMB72,850,000).

As of 30 June 2012, the Group had other borrowings amounting to approximately RMB1,341,822,000 (Six months ended 30 June 2011: Nil.), which represented the loans of US\$ 152,000,000 (equivalent to RMB961,385,000) and HK\$ 466,680,000 (equivalent to RMB380,437,000). The loans were lent by three independent third parties for a term of two years and are unsecured and interest bearing. One executive director and one non-executive director of the Company once acted as directors of one of the three independent third parties.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 19. SHARE CAPITAL

	Notes	Number of shares	Shares capital US\$
Authorised			
Ordinary shares of US\$0.01 each			
At 1 January 2011		5,000,000	50,000
Increase on 16 January 2011	(a)	9,995,000,000	99,950,000
Ordinary shares of US\$0.01 each			
At 31 December 2011 and 30 June 2012		10,000,000,000	100,000,000
Issued and fully paid			
Ordinary shares of US\$0.01 each			
At January 2011		1,000,000	10,000
Capitalisation of share premium on 24 March 2011	(a)	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	(b)	885,000,000	8,850,000
Ordinary shares of US\$0.01 each			
At 31 December 2011 and 30 June 2012		5,885,000,000	58,850,000
		<b>30 June 2012</b>	31 December 2011
		<b>RMB'000</b>	RMB'000
Shown in the condensed consolidated statement of financial position		<b>386,206</b>	386,206

Notes:

- (a) 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.
- (b) 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 Main Board of the Stock Exchange.

During the six month period ended 30 June 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 20. OPERATING LEASES

The Group as lessee

	<b>30 June 2012 RMB'000</b>	31 December 2011 RMB'000
Minimum lease payments paid under operating leases for premises	<b>1,743</b>	3,565

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>30 June 2012 RMB'000</b>	31 December 2011 RMB'000
Within one year	<b>3,177</b>	3,447
In the second to fifth year inclusive	–	1,436
	<b>3,177</b>	4,883

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of two years and rentals are fixed for an average of two years.

## 21. CAPITAL COMMITMENTS

	<b>30 June 2012 RMB'000</b>	31 December 2011 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:		
– contracted for but not provided	<b>5,925,232</b>	5,869,031
– authorised but not contracted for	<b>5,221,300</b>	8,541,440
	<b>11,146,532</b>	14,410,471

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 22. RELATED PARTY TRANSACTIONS

The related party transactions disclosed below.

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

Name	Relationship
濱州魏橋鋁業科技有限公司 (“Aluminum Technology”) (note i)	Controlled by 山東魏橋創業集團有限公司 (“Chuangye Group”)
Chuangye Group	Note ii

Notes:

- (i) The English name of the above company is for reference only and have not been registered.
- (ii) Mr. Zhang Shiping, 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 each of the six months ended 30 June 2012 and 2011.

### (b) The Group has entered into the following significant transactions with its related parties during the reporting period:

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Purchases of carbon anode blocks		
– Aluminum Technology	102,341	197,135
Sales of slag of carbon anode blocks		
– Aluminum Technology	13,432	14,479

### (c) Compensation of key management personnel

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Short term employee benefit	2,879	2,747
Retirement benefits scheme contributions	16	14
	2,895	2,761

# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 23. CONTINGENT LIABILITY

- (a) In June 2010, the Group's subsidiary, Shandong Weiqiao Aluminum Power Co., Ltd ("Aluminum & Power"), has filed two separate claims against Wuhan Boiler Company Limited ("Wuhan Boiler", a boiler supplier of the Group), seeking (i) refund of deposits made by Aluminum & Power of RMB59 million for the acquisition of eight sets of boilers pursuant to two boiler purchase agreements entered into in 2007 (the "2007 Boiler Purchase Agreements"); and (ii) compensation of RMB10.9 million, totaling an aggregate claim of approximately RMB69.9 million, as Wuhan Boiler has not delivered boilers within the time frame as specified in the 2007 Boiler Purchase Agreements.

On 4 March 2011 and 18 August 2011, Wuhan Boiler initiated two separate legal proceeding against Aluminum & Power at Shandong Higher People's Court relating to the 2007 Boiler Purchase Agreements, seeking (i) for the agreement dated 6 February 2007, forfeiture of the deposit made by Aluminum & Power in the amount of RMB38.7 million, the unpaid price of goods of approximately RMB49.96 million and damages of approximately RMB61.3 million; (ii) for the agreement dated 26 June 2007, forfeiture of the deposit made by Aluminum & Power in the amount of RMB10 million, and damages of approximately RMB67.4 million; and (iii) relevant litigation expenses.

As of 31 December 2011, the Group has accrued in full the remaining contract sum in relation to the 2007 Boiler Purchase Agreement including unpaid price of goods in an aggregate amount of RMB49.96 million (the "Accrued Liabilities") in relation to the litigations brought by Wuhan Boiler.

On 29 February 2012, Mr. Zhang, the controlling shareholder of the Company, has agreed in writing to indemnify any losses that may be incurred by Aluminum & Power arising from the claims mentioned above in relation to the 2007 Boiler Purchase Agreement brought by Wuhan Boiler.

On 27 March 2012, the Group and Wuhan Boiler signed a settlement agreement relating to the 2007 Boiler Purchase Agreements. According to the settlement agreement, the Group should pay Wuhan Boiler RMB1.26 million (the deposit of RMB48.7 million deducted) by a monthly payment of RMB0.14 million from April 2012 to December 2012.



# Notes to the Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2012

## 23. CONTINGENT LIABILITY (CONTINUED)

- (b) On 11 July 2003, Aluminum & Power and Wuhan Boiler entered into a boiler supply agreement, pursuant to which Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers for approximately RMB424 million (the “2003 Boiler Purchase Agreement”). This boiler supply agreement was amended for several times with respect to its total price, delivery schedule and payment term in 2005 and 2006. As both parties had disputes regarding the interpretation of the terms with respect to the total price and quality deposits, on 15 September 2010, Wuhan Boiler initiated legal proceedings against Aluminum & Power at Shandong Higher People’s Court, seeking for payment of the remaining contract sum and refund of quality deposit of approximately RMB52.3 million, damages of approximately RMB83.5 million, an overdue fine of approximately RMB57.5 million and the relevant litigation expenses.

On 16 February 2006 and 24 May 2006, Aluminum & Power and Wuhan Boiler entered into two boiler supply agreements (the “2006 Boiler Purchase Agreements”). Pursuant to the terms of each of the 2006 Boiler Purchase Agreements, Wuhan Boiler agreed to provide Aluminum & Power with eight sets of boilers. The total contract amount of each of the 2006 Boiler Purchase Agreements was approximately RMB104 million. On 23 March 2010, Aluminum & Power, 濱州高新鋁電股份有限公司 (Binzhou Gaoxin Aluminum & Power Joint Stock Co., Ltd.) (“Gaoxin Aluminum & Power”) (formerly known as 鄒平高新熱電有限公司) and Wuhan Boiler entered into a contract for assigning the rights and obligations under both 2006 Boiler Purchase Agreements from Aluminum & Power to Gaoxin Aluminum & Power. Pursuant to the terms of this contract, Gaoxin Aluminum & Power has the primary responsibility to fulfill obligations under the 2006 Boiler Purchase Agreements and Wuhan Boiler had the right to seek performance by Aluminum & Power under the 2006 Boiler Purchase Agreements if Gaoxin Aluminum & Power refuses or fails to do so. As Wuhan Boiler and Gaoxin Aluminum & Power had disputes regarding the interpretation of the terms of the 2006 Boiler Purchase Agreements including the total price under these agreements, on 8 November 2010 and 17 November 2010, Wuhan Boiler respectively initiated legal proceedings against Gaoxin Aluminum & Power and Aluminum & Power at Shandong Higher People’s Court, seeking, (i) for the agreement dated 16 February 2006, damages of approximately RMB51.51 million; (ii) for the agreement dated 24 May 2006, payment of remaining contract sum RMB32.7 million, payment of terminated loss of RMB13 million, damages of approximately RMB49.2 million, and overdue fine of approximately RMB47.6 million; and (iii) relevant litigation expenses.

As of 31 December 2011, quality deposits approximately RMB52.3 million in relation to the 2003 Boiler Purchase Agreements was included in other payable.

On 16 January 2011, Mr. Zhang, the controlling shareholder of the Company, has agreed in writing to indemnify any losses that may be incurred by Aluminum & Power arising from the claims mentioned above in relation to the 2003 Boiler Purchase Agreement brought by Wuhan Boiler. In addition, on the same date, Chuangye Group has also agreed in writing to indemnify any losses that may be incurred by Aluminum & Power arising from the claims mentioned above in relations to the 2006 Boiler Purchase Agreement brought by Wuhan Boiler.

On 27 March 2012, the Group and Wuhan Boiler signed a settlement agreement relating to the 2003 Boiler Purchase Agreements and 2006 Boiler Purchase Agreements. According to the settlement agreement, the Group should pay Wuhan Boiler RMB1.1 million within 15 days after the settlement agreement became effective and RMB51.2 million by a monthly payment of RMB5.69 million from April 2012 to December 2012.