興發鋁業控股有限公司

XINGFA ALUMINIUM HOLDINGS LIMITED

(Stock code: 98)

Interim Report 2008

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CORPORATE INFORMATION

DIRECTORS AND BOARD COMMITTEES

Directors

Executive Directors

Luo Su *(Chairman)*
Luo Riming *(Chief Executive Officer)*
Liao Yuqing
Wang Zhihua

Independent Non-executive Directors

Chen Mo
Ho, Kwan Yiu
Lam, Ying Hung Andy

Board Committees

Audit Committee

Lam, Ying Hung Andy *(Chairman)*
Chen Mo
Ho, Kwan Yiu

Remuneration Committee

Ho, Kwan Yiu *(Chairman)*
Chen Mo
Lam, Ying Hung Andy
Luo Su

Nomination Committee

Luo Su *(Chairman)*
Chen Mo
Ho, Kwan Yiu
Lam, Ying Hung Andy

QUALIFIED ACCOUNTANT

Wong Siu Ki *(AHKICPA, FCCA, ACA)*

COMPANY SECRETARY

Wong Siu Ki *(AHKICPA, FCCA, ACA)*

AUTHORISED REPRESENTATIVES

Wang Zhihua
Wong Siu Ki
Lam, Ying Hung Andy
(alternate to Wang Zhihua)

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Hong Kong

PRINCIPAL BANKERS

Bank of China, Foshan Branch
Agriculture Bank of China, Foshan Nanzhuang Sub-branch
China Construction Bank Corporation, Foshan Branch

LEGAL ADVISERS

As to Hong Kong law:

Chiu & Partners

As to PRC law:

Jingtian & Gongcheng

As to Cayman Islands law:

Conyers Dill & Pearman

AUDITORS

KPMG
8th Floor, Prince's Building,
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SHARE REGISTRARS

Principal Share Registrar and Transfer Office in the Cayman Islands

Butterfield Fund Services (Cayman) Limited
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Cayman Islands

Branch Share Registrar and Transfer Office in Hong Kong

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COMPLIANCE ADVISER

ICEA Capital Limited

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited

WEBSITE

www.xingfa.com

STOCK CODE

00098

INTRODUCTION

The board of directors (the "**Directors**" or the "**Board**") of Xingfa Aluminium Holdings Limited (the "**Company**") has pleasure to present the interim financial report of the Company and its subsidiaries (collectively referred to as the "**Group**", "**our Group**", "**we**" or "**us**") for the six months ended 30 June 2008, which have not been audited by the auditors of the Group, KPMG, but have been reviewed by KPMG and the audit committee of the Company.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

for the six months ended 30 June 2008 — unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Turnover	*3*	**1,084,200**	905,361
Cost of sales		**(972,212)**	(818,361)
Gross profit		**111,988**	87,000
Other net (loss)/income	*4*	**(1,795)**	177,499
Distribution expenses		**(20,090)**	(15,580)
Administrative expenses		**(29,809)**	(13,030)
Results from operating activities		**60,294**	235,889
Finance income	*5(a)*	**1,732**	1,671
Finance expenses	*5(a)*	**(21,358)**	(13,297)
Net financial costs	*5(a)*	**(19,626)**	(11,626)
Profit before taxation	*5*	**40,668**	224,263
Income tax (expense)/credit	*6*	**(6,996)**	330
Profit for the period		**33,672**	224,593
Attributable to:			
Equity holders of the Company		**33,672**	224,673
Minority interests		**—**	(80)
Profit for the period		**33,672**	224,593
Basic and diluted earnings per share *(RMB yuan)*	*8*	**0.09**	0.72

The notes on pages 9 to 33 form part of this interim financial report.

Consolidated Balance Sheet

at 30 June 2008 — unaudited
(Expressed in Renminbi)

	Note	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Non-current assets			
Property, plant and equipment	9	178,133	139,007
		178,133	139,007
Current assets			
Inventories	10	320,501	239,625
Trade and other receivables	11	559,691	493,955
Pledged deposits	12	128,446	32,422
Cash and cash equivalents	13	336,459	146,411
Assets classified as held for sale	14	10,486	10,486
		1,355,583	922,899
Current liabilities			
Loans and borrowings	15	380,047	297,000
Trade and other payables	16	419,512	247,492
Current tax payables		6,207	2,086
		805,766	546,578
Net current assets		549,817	376,321
Total assets less current liabilities		727,950	515,328
Non-current liabilities			
Loans and borrowings	15	60,000	80,000
		60,000	80,000
NET ASSETS		667,950	435,328
CAPITAL AND RESERVES			
Share capital	17	3,731	210,000
Reserves	18	664,219	225,328
TOTAL EQUITY		667,950	435,328

The notes on pages 9 to 33 form part of this interim financial report.

Consolidated Statement of Changes in Equity

for the six months ended 30 June 2008 — unaudited
(Expressed in Renminbi)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Other reserve	PRC statutory reserves	Exchanges reserves	Retained earnings	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 17)	*(Note 18(a))*	*(Note 18(b))*	*(Note 18(c))*					
At 1 January 2007	225,000	–	–	37,186	–	60,915	323,101	29,139	352,240
Profit for the period	–	–	–	–	–	224,673	224,673	(80)	224,593
At 30 June 2007	225,000	–	–	37,186	–	285,588	547,774	29,059	576,833
At 1 January 2008	210,000	–	–	47,880	–	177,448	435,328	–	435,328
Arising from Reorganisation *(Note 17)*	(209,822)	–	209,822	–	–	–	–	–	–
Capitalisation issue	2,594	(2,594)	–	–	–	–	–	–	–
Share issued under the placing and global offering	959	217,763	–	–	–	–	218,722	–	218,722
Share issuance costs	–	(19,009)	–	–	–	–	(19,009)	–	(19,009)
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	–	–	–	–	(763)	–	(763)	–	(763)
Profit for the period	–	–	–	–	–	33,672	33,672	–	33,672
At 30 June 2008	3,731	196,160	209,822	47,880	(763)	211,120	667,950	–	667,950

The notes on pages 9 to 33 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

for the six months ended 30 June 2008 — unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Cash generated from/(used in) operations	**72,944**	(45,735)
Income tax paid by the subsidiaries in the PRC	**(2,875)**	(1,537)
Net cash generated from/(used in) operating activities	**70,069**	(47,272)
Net cash (used in)/generated from investing activities	**(121,140)**	175,970
Net cash generated from financing activities	**245,715**	2,172
Net increase in cash and cash equivalents	**194,644**	130,870
Effect of foreign exchange rate changes	**(4,596)**	—
Cash and cash equivalents at 1 January	**146,411**	56,088
Cash and cash equivalents at 30 June	**336,459**	186,958

The notes on pages 9 to 33 form part of this interim financial report.

Notes on the Unaudited Interim Financial Report

(Expressed in Renminbi)

1. Basis of presentation and preparation

(a) Basis of presentation

Xingfa Aluminium Holdings Limited (the "Company") was incorporated in the Cayman Islands on 13 September 2007 as an exempted company with limited liability under the Companies Law (Cap. 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (the "Group") are principally engaged in manufacturing and sales of aluminium profiles (the "Aluminium Profile Business").

Pursuant to a reorganisation (the "Reorganisation") of the Company and the companies now comprising the Group completed on 29 February 2008 to rationalise the Group structure for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the operations of the Aluminium Profile Business with the relevant assets and liabilities of Guangdong Xingfa Group Co., Ltd. ("Xingfa Group"), Guangdong Xingfa Innovation Co., Ltd. ("Xingfa Innovation") and Foshan Xingfa Aluminium Co., Ltd. ("Foshan Xingfa") (hereinafter collectively referred to as the "Predecessor Entities"), were transferred to the companies now comprising the Group and the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange on 31 March 2008. Details of the Reorganisation are set out in the prospectus dated 17 March 2008 issued by the Company.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity holders (the "Controlling Shareholders"), the Group is regarded as a continuing entity resulting from the Reorganisation under common control. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group as if the current group structure had been in existence for both periods presented, rather than from 29 February 2008.

Accordingly, the consolidated results of the Group for the six months ended 30 June 2007 include the results of operations of Aluminium Profile Business of the Predecessor Entities and the results of the operations of the companies now comprising the Group for the six months ended 30 June 2007 (or where the companies were established/incorporated at a date later than 1 January 2007, for the period from the date of establishment/incorporation to 30 June 2007). The consolidated results of the Group for the six months ended 30 June 2008 include the results of the Company and its subsidiaries with effect from 1 January 2008 or since their respective dates of incorporation, whichever is a shorter period.

The consolidated balance sheet at 31 December 2007 is the combination of the balance sheets of the Company and the subsidiaries now comprising the Group at 31 December 2007. All material inter-group transactions and balances have been eliminated on consolidation. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

(b) Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange, including compliance with International Accounting Standards ("IAS") 34, Interim financial reporting, adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 19 September 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 Annual Report of the Company dated 21 April 2008.

The IASB has issued a number of new and revised International Financial Reporting Standards ("IFRSs"), which term collectively includes all applicable individual International Financial Reporting Standards, IASs and Interpretations, that are effective for accounting periods beginning on or after 1 January 2008. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's financial statements for the year ending 31 December 2008, on the basis of IFRSs currently in issue.

The IFRSs that will be effective or are available for voluntary early adoption in the Group's financial statements for the year ending 31 December 2008 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period (Note 22).

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

The interim financial report contains condensed consolidated financial statements ("interim financial statements") and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 Annual Report. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with IFRSs.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with the Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on page 34.

(c) 2007 statutory financial statements and combined financial statements

The 2007 Annual Report of the Company included statutory financial statements of the Company and the combined financial statements of the Company and the subsidiaries now comprising the Group for the year ended 31 December 2007. The combined financial statements did not form part of the Company's statutory financial statements for the year ended 31 December 2007. The basis of presentation of the combined financial statements for the year ended 31 December 2007 is consistent to the basis of presentation for this interim financial report as set out in note 1(a) above.

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory annual financial statements and the combined financial statements for that financial year but is derived from those financial statements. The Company's statutory annual financial statements and the combined financial statements for the year ended 31 December 2007 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 21 April 2008.

2. Segment reporting

As all of the Group's total turnover and profits were derived from Aluminium Profile Business, accordingly no analysis by business segments is presented for the Group. In addition, the Group's business participates primarily in one geographical location classified by the location of assets, that is the PRC, and accordingly, no geographical segmental analysis is provided. Segment revenue based on the geographical location of customers is presented as follows:

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Turnover		
The PRC (other than Hong Kong)	**1,000,984**	794,709
North America	**4,413**	27,810
Europe	**9,200**	2,128
Hong Kong	**38,172**	31,420
Asia Pacific (other than the PRC and Hong Kong)	**11,234**	43,909
Others	**20,197**	5,385
	1,084,200	905,361

3. Turnover

The Group is principally engaged in the manufacturing and sale of aluminium profiles.

Turnover represents the sales value of goods supplied to customers. Turnover excludes value added taxes or other sales taxes and is after allowance for goods returned and deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the period is as follows:

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Manufacture and sales of aluminium profiles	**1,027,794**	874,590
Manufacture and sales of aluminium panels, moulds and spare parts	**56,017**	29,635
Provision of processing services	**389**	1,136
	1,084,200	905,361

4. Other net (loss)/income

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Compensation income	**—**	706
Government grants	**70**	338
Rental income		
— investment property	**—**	300
— others	**171**	47
Net (losses)/gains on derivative financial instruments	**(1,967)**	598
Gain on disposal of lease prepayment	**—**	174,941
Others	**(69)**	569
	(1,795)	177,499

5. Profit before taxation

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

		For the six months ended 30 June	
		2008	2007
		RMB'000	*RMB'000*
(a)	Finance income and expenses:		
	Interest on bank deposits	**(1,732)**	(1,671)
	Finance income	**(1,732)**	(1,671)
	Interest expenses on bank loans	**15,758**	12,008
	Net foreign exchange losses	**5,473**	1,289
	Changes in fair value of foreign exchange forward contracts	**127**	—
	Finance expenses	**21,358**	13,297
	Net finance costs	**19,626**	11,626
(b)	Other items:		
	Depreciation		
	— Property, plant and equipment	**11,358**	13,129
	— Investment property	**—**	94
	Amortisation of lease prepayments	**—**	799
	Research and development costs	**1,339**	1,072
	Auditor's remuneration	**700**	100
	Operating lease charges		
	— Plants and machineries	**3,092**	—
	— Properties	**5,899**	—

6. Income tax expense/(credit)

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**6,996**	–
Provision for PRC land appreciation tax	**–**	2,081
	6,996	2,081
Deferred tax		
Origination and reversal of temporary differences	**–**	(2,891)
Effect of tax rate change	**–**	480
	–	2,411
	6,996	(330)

(a) Pursuant to the rules and regulations of the Cayman Islands and the BVIs, the Group is not subject to any income tax in the Cayman Islands and the BVIs. No provision for Singapore Corporate Profits Tax and Hong Kong Profits Tax was made as the Group has no assessable profits subject to Singapore Corporate Profits Tax and Hong Kong Profits Tax during the period (2007: Nil).

(b) Pursuant to the income tax rules and regulations of the PRC, the PRC entity of the Group and the Predecessor Entities are liable to PRC enterprise income tax as follows:

(i) Guangdong Xingfa Aluminium Co., Ltd. ("Guangdong Xingfa") is a wholly foreign owned enterprise and is entitled to tax concessions whereby the profit for the first two financial years beginning with the first profit-making year is exempted from income tax in the PRC and the profit for each of the subsequent three years is taxed at 50% of the prevailing tax rate set by the local authority. No provision for PRC income tax has been made during 2007 as 2006 is the entity's first profit-making year.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which has taken effect on 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and "Guo Fa [2007] No. 39" were promulgated to specify certain implementation details and grandfathering arrangements of the new tax law. As a result of the new tax law, Guangdong Xingfa is subject to a unified tax rate of 25% and will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. The applicable tax rate of Guangdong Xingfa during 2008 is 12.5%.

(ii) Following the consummation of the transfer of the operations of Aluminium Profile Business from the Predecessor Entities to the subsidiaries now comprising the Group on 28 July 2007, the Predecessor Entities did not form part of the Group. The applicable tax rates of the Predecessor Entities for the period ended 30 June 2007 were as follows:

- Xingfa Group is a limited liability company established under the laws of the PRC. It is liable to the PRC enterprise income tax at a rate of 33%.

- Foshan Xingfa is located in the coastal economic open zone of Foshan, pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment & Foreign Enterprises and relevant rules, the income tax rate applicable to the entity is 27%.

- Xingfa Innovation is recognised as an Advanced Technology Enterprise according to the approval from Guangdong Provincial Department of Science and Technology. Pursuant to the approval of Local Tax Bureau of Foshan in 2003, income tax rate applicable to the entity is 15%.

(c) Pursuant to the new tax law in the PRC, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by tax treaty) on various types of passive income such as dividends derived from sources within the PRC. As Guangdong Xingfa is directly and collectively held by a Hong Kong incorporated subsidiary and a Singapore incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

According to the notice Caishui [2008] No. 1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Accordingly, the retained profits amounted to RMB206,915,000 as at 31 December 2007 in the Group's foreign-invested enterprise's books and accounts will not be subject to 5% withholding tax on future distributions.

The Group is liable to withholding tax on dividends distributed from Guangdong Xingfa in respect of its profits generated on or after 1 January 2008. At 30 June 2008, temporary differences relating to the undistributed profits of Guangdong Xingfa amounted to RMB47,313,000. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Guangdong Xingfa and it has determined that it is probable that profits will not be distributed by Guangdong Xingfa in the foreseeable future.

7. Dividends

The directors do not propose the payment of interim dividends for the period ended 30 June 2008 (2007: Nil).

8. Earnings per share

The calculation of basic earnings per share during the period ended 30 June 2008 was based on the profit attributable to equity holders of the Company of RMB 33,672,000 (2007: RMB 224,673,000) and the weighted average number of shares in issue during the period ended 30 June 2008 of 364,705,000 (2007: 311,410,000). The weighted average number of shares in issue during the period ended 30 June 2007 and 2008 is calculated on the assumption that the 311,410,000 shares issued upon the Reorganisation were outstanding throughout the entire two periods.

Weighted average number of shares

	For the six months ended 30 June	
	2008	2007
	'000 shares	*'000 shares*
Share issued upon Reorganisation	**311,410**	311,410
Effect of shares issued upon placing and public offering on 31 March 2008	**53,295**	–
	364,705	311,410

There were no dilutive potential ordinary shares in issue for the periods ended 30 June 2008 and 2007, and therefore, the diluted earnings per share are the same as the basic earnings per share.

9. Property, plant and equipment

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and others *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
At 1 January 2008	–	252,623	4,284	5,863	3,200	265,970
Additions	–	8,197	1,400	5,212	35,675	50,484
Transfer from construction in progress	17,710	1,675	–	–	(19,385)	–
At 30 June 2008	17,710	262,495	5,684	11,075	19,490	316,454
Accumulated depreciation:						
At 1 January 2008	–	(123,888)	(1,864)	(1,211)	–	(126,963)
Charge for the period	(175)	(10,544)	(285)	(354)	–	(11,358)
At 30 June 2008	(175)	(134,432)	(2,149)	(1,565)	–	(138,321)
Carrying amount:						
At 31 December 2007	–	128,735	2,420	4,652	3,200	139,007
At 30 June 2008	17,535	128,063	3,535	9,510	19,490	178,133

10. Inventories

	At 30 June 2008 ***RMB'000***	At 31 December 2007 *RMB'000*
Raw materials	**242,365**	165,773
Work-in-progress	**20,635**	11,724
Finished goods	**57,501**	62,128
	320,501	239,625

Certain inventories with aggregate carrying value of RMB200,443,000 were pledged as securities for bank loans of the Group as at 30 June 2008 (31 December 2007: 53,773,000) *(Note 15(b))*.

11. Trade and other receivables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade debtors	**315,914**	279,992
Bills receivable	**120,731**	120,049
Other receivables, prepayments and deposits	**123,046**	93,104
Derivative financial instruments	**—**	810
	559,691	493,955

Certain trade debtors and bills receivable with an aggregate carrying value of RMB96,518,000 were pledged as securities for bank loans of the Group as at 30 June 2008 (31 December 2007: RMB7,000,000) *(Note 15(b))*.

Included in trade and other receivables are trade debtors and bills receivable with the following aging analysis as at the balance sheet date. The credit terms granted by the Group to customers generally range from 30 days to 60 days.

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Current	**436,645**	400,041

Based on past experience, the Group believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

12. Pledged deposits

Pledged deposits have been pledged to banks as security for certain banking facilities *(Note 15(b))* and bills payable *(Note 16)*.

13. Cash and cash equivalents

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Cash and cash at bank	**336,459**	146,411

14. Assets classified as held for sale

	At 30 June 2008	At 31 December 2007
	RMB'000	*RMB'000*
Lease prepayments	**4,996**	4,996
Property, plant and equipment	**1,828**	1,828
Investment property	**3,662**	3,662
	10,486	10,486

As part of the Reorganisation, the Group has reviewed the operating structure of the Group and has concluded to sell certain lease prepayments, property, plant and equipment and investment property which are believed that they would not contribute significant financial effect to the Group in the future.

Pursuant to two conditional sale and purchase agreements entered into between the Group and a related party on 12 October 2007 and 6 December 2007, the Group agreed to dispose of the above assets to the related party at an aggregate consideration of RMB23,000,000 *(Note 20 (b)(vi))*. The agreements are conditional and are subject to the completion of transferring of the title deeds of the above assets. The transactions were completed on 29 July 2008.

15. Loans and borrowings

(a) Loans and borrowings were repayable as follows:

	At 30 June 2008	At 31 December 2007
	RMB'000	*RMB'000*
Current:		
Secured	**168,047**	117,000
Unsecured	**212,000**	180,000
	380,047	297,000
Non-current:		
Secured	**60,000**	80,000
	440,047	377,000

(b) The secured bank loans were secured by the following assets of the Group as at the balance sheet date.

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Carrying value of assets:		
Inventories *(Note 10)*	**200,443**	53,773
Bills receivable *(Note 11)*	**—**	7,000
Trade debtors *(Note 11)*	**96,518**	—
Pledged deposits *(Note 12)*	**25,036**	—
	321,997	60,773

(c) Certain banking facilities amounted to RMB230,000,000 (31 December 2007: RMB385,000,000) were guaranteed by certain related parties, such backing facilities were utilised to the extent of RMB97,000,000 (31 December 2007: RMB370,000,000) as disclosed in Note 20(b)(v).

16. Trade and other payables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade payables	**58,427**	53,578
Bills payable	**240,565**	100,197
Other payables and accruals	**119,004**	92,191
Deferred income	**1,389**	804
Derivative financial instruments	**127**	722
	419,512	247,492

Bills payable as at 30 June 2008 and 31 December 2007 were secured by pledged bank deposits.

Included in trade and other payables are trade payables and bills payable with the following aging analysis as of the balance sheet date. The credit terms granted by various suppliers range from 30 days to 60 days.

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Due within 1 month or on demand	9,904	21,239
Due after 1 month but within 3 months	169,088	76,536
Due after 3 months but within 6 months	120,000	56,000
	298,992	153,775

17 Share capital

The Company was incorporated on 13 September 2007. The share capital as at 31 December 2007 represented the aggregate amount of paid-in capital of the companies now comprising the Group, after elimination of investments in subsidiaries. Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group and the Reorganisation was completed on 29 February 2008. This was accomplished by two steps. Firstly, Xingfa China (BVI) Ltd. ("Xingfa BVI") acquired the entire share capital of Xingfa Aluminium Pte. Ltd. ("Xingfa SG") from the Controlling Shareholders and the consideration of which was satisfied by the issue and allotment of 1,000 ordinary shares of Xingfa BVI to the Controlling Shareholders. Secondly, the Company acquired the entire share capital of Xingfa BVI, which became the then immediate holding company of the Company, in consideration of and in exchange for the Company's ordinary shares as set out in note (b)(i) below. The excess of the consolidated net assets represented by the shares acquired over the nominal value of shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus.

Movements of the authorised and issued share capital of the Company during the period ended 30 June 2008 are as follows:

	Note	Number of ordinary shares '000	Nominal value of ordinary shares HK$'000
Authorised:			
Ordinary shares of HK$0.01 each upon incorporation		10,000	100
Increase in authorised share capital			
— on 29 February 2008		10,000	100
— on 31 March 2008		980,000	9,800
At 30 June 2008	*(a)*	1,000,000	10,000

	Note	Number of fully paid ordinary shares	Nominal value of fully paid ordinary shares	
		'000	HK$'000	RMB'000
Issued and fully paid or credited as fully paid:				
At 13 September 2007 (date of incorporation) issue of ordinary shares of HK$0.01 each	*(b)(i)*	—	—	—
At 1 January 2008		—	—	—
Arising from the Reorganisation	*(b)(i)*	20,000	200	178
Capitalisation issue	*(b)(ii)*	291,410	2,914	2,594
Shares issued under the placing and global offering	*(b)(iii)*	106,590	1,066	959
At 30 June 2008		418,000	4,180	3,731

(a) Authorised share capital of the Company

The Company was incorporated on 13 September 2007 with an authorised share capital of HK$100,000 divided into 10,000,000 shares of HK$0.01 each. On 29 February 2008, the authorised share capital of the Company was increased to HK$200,000 by the creation of a further 10,000,000 shares of HK$0.01 each. On 31 March 2008, the authorised share capital of the Company was increased to HK$10,000,000 by the creation of a further 980,000,000 shares of HK$0.01 each.

(b) Issue of share capital

(i) Upon Reorganisation

The Company was incorporated on 13 September 2007 with 10,000,000 nil-paid ordinary shares at HK$0.01 per share. On 29 February 2008, the Company acquired the entire issued share capital of Xingfa BVI from the Controlling Shareholders in consideration of which satisfied by:

(a) allotted and issued, credited as fully paid, 10,000,000 ordinary shares to the Controlling Shareholders; and

(b) credited as fully paid at par the 10,000,000 nil-paid ordinary shares issued on incorporation.

(ii) *Capitalisation issue*

On 31 March 2008, pursuant to the written resolution of shareholders of the Company passed on 29 February 2008, 291,410,000 ordinary shares of the Company were allotted and issued to the Controlling Shareholders. The amount was paid up in full by applying an amount of HK$2,914,000 (equivalent to RMB2,594,000) standing to the credit of the share premium account of the Company.

(iii) *Issue of shares under the placing and global offering*

On 31 March 2008, the Company issued 106,590,000 ordinary shares of HK$0.01 each, at a price of HK$2.28 per share in connection with the placing and global offering, and raised gross proceeds of approximately HK$243,025,000 (equivalent to RMB218,722,000). The proceeds of HK$1,066,000 (equivalent to RMB959,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$241,959,000 (equivalent to RMB217,763,000), before the share issue expenses of RMB19,009,000, were credited to the share premium account.

18. Reserves

(a) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account and contributed surplus account of the Company are distributable to the shareholders provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(b) Other reserve

Other reserve represents the difference between the nominal value of shares of the subsidiaries acquired over the nominal value of shares issued by the Company in exchange thereafter.

(c) PRC statutory reserves

No transfer to statutory reserves was made during the period ended 30 June 2008 (2007: Nil).

19. Commitments

(a) Capital commitments

Capital commitments outstanding at 30 June 2008 not provided for in the interim financial report were as follows:

	At 30 June 2008	At 31 December 2007
	RMB'000	*RMB'000*
Purchase of property, plant and equipment		
— Contracted for but not provided for	12,860	40,883

(b) Operating lease commitments

At 30 June 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2008	At 31 December 2007
	RMB'000	*RMB'000*
Within 1 year	4,809	4,355
Between one to two years	379	—
Total	5,188	4,355

During the period ended 30 June 2008, the Group leased certain land use rights, a number of properties and items of plant and machinery from the Predecessor Entities, Xinggao Aluminium and certain third parties under operating leases. The leases typically run for an initial period of 1 year to 2.5 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

The lease arrangements with the Predecessor Entities and Xinggao Aluminium are cancellable upon a 3 months' notice from the Group and hence, operating lease commitments of RMB4,355,000(2007: RMB4,355,000) represent the aggregate amount of 3 months' rental expenses. On 26 July 2008, the Group acquired 100% interest in Xinggao Aluminium and Xinggao Aluminium became the wholly-owned subsidiary of the Company (Note 21).

20. Material related party transactions

In addition to the transactions and balances disclosed elsewhere in this interim financial report, the Group entered into the following material related party transactions:

During the period ended 30 June 2008, the directors are of the view that related parties of the Group include the following individuals/companies:

Name of related party	Relationship with the Group
Luo Su	Controlling Shareholder
Luo Riming	Controlling Shareholder
Liao Yuqing	Controlling Shareholder
Foshan Leahin Coating Co., Ltd. ("Leahin Coating") (佛山立興塗料有限公司) *(i)*	Effectively owned by the Controlling Shareholders
Foshan Xinggao Aluminium Co., Ltd. ("Xinggao Aluminium") (佛山市興高鋁業有限公司) *(i)*	Effectively owned by the Controlling Shareholders
Foshan Xinghui Ceramics Co., Ltd. ("Foshan Xinghui") (佛山市興輝陶瓷有限公司) *(i)*	Effectively owned by the Controlling Shareholders
Foshan Xingfa Curtain Wall, Door & Window Co., Ltd. ("Xingfa Curtain Wall") (佛山市興發幕牆門窗有限公司) *(i)*	Effectively owned by the Controlling Shareholders
Hang Fat Aluminium Profiles Co., Ltd. ("Hang Fat") *(ii)*	Effectively owned by the Controlling Shareholders
Xingfa Group *(iii)*	Effectively owned by the Controlling Shareholders
Xingfa Innovation *(iii)*	Effectively owned by the Controlling Shareholders
Chen Hongzai	Key management personnel of Xingfa Group

(i) The English translation of the company names is for reference only. The official names of these companies are in Chinese.

(ii) The Controlling Shareholders disposed of their entire interests in Hang Fat to an independent third party on 5 March 2008. Hang Fat was no longer a related party of the Group from that date.

(iii) Following the consummation of the transfer of operations of Aluminium Profiles Business from the Predecessor Entities to the subsidiaries now comprising the Group on 28 July 2007, these Predecessor Entities have become related parties of the Group from that date.

(a) Recurring transactions

Sales and purchase

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Sales of goods to		
— Xingfa Curtain Wall	**10,816**	1,592
Purchase of raw materials from		
— Leahin Coating	**3,969**	8,031

(b) Non-recurring transactions

(i) Sales of goods

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Xinggao Aluminium	**—**	1,291

(ii) Rental income

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Leahin Coating	**80**	80
Xingfa Curtain Wall	**85**	85

(iii) Operating lease arrangements

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Operating lease expenses paid to		
— Xingfa Group	**4,587**	—
— Xingfa Innovation	**1,480**	—
— Xinggao Aluminium	**2,643**	—
	8,710	—

(iv) Short-term advances to related parties

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Xinggao Aluminium	**—**	15,100
Foshan Xinghui	**—**	6,000
Xingfa Curtain Wall	**—**	1,000
Total	**—**	22,100

Advances to related parties are unsecured, interest free and have no fixed terms of repayment.

(v) *Financial guarantees*

Certain bank loans were guaranteed by the following related parties as at the balance sheet date.

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Luo Su, Luo Riming, and Liao Yuqing	**30,000**	–
Xingfa Group, Leahin Coating, Foshan Xinghui, Xinggao Aluminium, Luo Su, Cheng Hongzai, Luo Riming and Liao Yuqing	**–**	190,000
Xingfa Group, Luo Su, Luo Riming, and Liao Yuqing	**30,000**	–
Xingfa Group, Luo Su, Luo Riming, Chen Hongzai, and Liao Yuqing	**37,000**	30,000
Xingfa Group, Foshan Xinghui, Xinggao Aluminium, Luo Su, Chen Hongzai, Luo Riming and Liao Yuqing	**–**	70,000
Xingfa Group, Foshan Xinghui, Luo Su, Chen Hongzai, Luo Riming and Liao Yuqing	**–**	50,000
Xingfa Group, Xingfa Innovation, Foshan Xinghui, Luo Su, Luo Riming and Liao Yuqing	**–**	30,000
	97,000	370,000

(vi) *Disposal of assets to Xingfa Curtain Wall*

Pursuant to two conditional sale and purchase agreements entered into between the Group and Xingfa Curtain Wall on 12 October 2007 and 6 December 2007, the Group agreed to dispose of certain lease prepayments, property, plant and equipment and investment property to Xingfa Curtain Wall at an aggregate consideration of RMB23,000,000 (Note 14). The agreements are conditional and are subject to the completion of transferring of the title deeds of these assets. The transactions were completed on 29 July 2008.

(c) *Balances with related parties*

As at each balance sheet date, the Group had the following balances with related parties:

(i) Trade and other receivables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade related		
Xingfa Curtain Wall	3,917	–
	3,917	–
Non-trade related		
Xinggao Aluminium	440	–
Xingfa Curtain Wall	85	–
Xingfa Innovation	–	189
Xingfa Group	3,284	4,656
	3,809	4,845
	7,726	4,845

(ii) Trade and other payables

	At 30 June 2008 RMB'000	At 31 December 2007 RMB'000
Trade related		
Leahin Coating	623	3,138
Non-trade related		
Hang Fat	–	747
Xingfa Curtain Wall	–	700
	–	1,447
	623	4,585

The amounts due from/(to) related parties are unsecured, interest free and have no fixed terms of repayment.

(d) Key management personnel compensation

Remuneration for key management personnel is as follows:

	For the six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
Short-term employee benefits	**1,455**	290
Contribution to retirement benefit plan	**20**	15
Total	**1,475**	305

21. Post balance sheet event

Pursuant to an extraordinary general meeting held on 25 July 2008, the shareholders approved the Company to acquire 100% equity interest in Xinggao Aluminium in consideration of RMB142,699,000 from the Controlling Shareholders (the "Acquisition"). As part of the Acquisition, Xinggao Aluminium would acquire from Xingfa Group and Xingfa Innovation of certain machineries, which were leased to the Group under operating leases, at an aggregated consideration of RMB14,256,000 (the "Assets Purchase").

Xinggao Aluminium, Xingfa Group and Xingfa Innovation are limited liability companies established in the PRC and were principally engaged in leasing of land use right and property, plant and equipment (the "Leased Assets") for the production of aluminium profiles to the Group. They are effectively owned by the Controlling Shareholders.

The corresponding sale and purchase agreements on Acquisition and Assets Purchase were signed on 26 July 2008 and Xinggao Aluminium has become the wholly-owned subsidiary of the Company since that date.

22. Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ending 31 December 2008

Up to the date of issue of this interim financial report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2008 and which have not been adopted in this interim financial report.

Of these developments, the following relate to matter that may be relevant to the Group's operations and the combined financial statements:

		Effective for accounting periods beginning on or after
IAS 1	*Presentation of Financial Statements*	1 January 2009
IAS 23	*Borrowing Costs*	1 January 2009
IAS 27	*Consolidated and Separate Financial Statements*	1 July 2009
IFRS 8	*Operating Segments*	1 January 2009

The directors have confirmed that the Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

INDEPENDENT REVIEW REPORT

KPMG

Independent Review Report to the Board of Directors of
Xingfa Aluminium Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 5 to 33, which comprises the consolidated balance sheet of Xingfa Aluminium Holdings Limited as of 30 June 2008 and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim financial reporting" adopted by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making 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 Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 September 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

Turnover

We are one of the leading aluminium profiles manufacturers in the PRC and are principally engaged in the manufacture and sale of aluminium profiles.

Our turnover increased by approximately 19.8% from approximately RMB905.36 million for the six months ended 30 June 2007 to approximately RMB1,084.20 million for the six months ended 30 June 2008. The increase in our turnover during the period under review was mainly attributable to the increase in our total sales volume by approximately 24.1% from 37,370 tonnes for the six months ended 30 June 2007 to 46,389 tonnes for the six months ended 30 June 2008.

In particular, our sales volume of aluminium profiles with surface finishing increased by approximately 37.4% from 21,975 tonnes for the six months ended 30 June 2007 to 30,193 tonnes for the six months ended 30 June 2008 as a result of the increased customers demand for construction materials in relation to the uncompleted projects on hand in 2007.

Cost of sales

Our cost of sales increased by approximately 18.8% from approximately RMB818.36 million for the six months ended 30 June 2007 to RMB972.21 million for the six months ended 30 June 2008. The increase in the cost of sales was primarily due to the increase in the purchase of aluminium ingots to meet the production needs.

Gross profit and gross profit margin

As a results of the factors mentioned in the sub-paragraphs headed “Turnover” and “Cost of sales” above, our gross profit increased by approximately 28.7% from approximately RMB87.00 million for the six months ended 30 June 2007 to RMB111.99 million for the six months ended 30 June 2008, while our gross profit margin was further improved from 9.6% to 10.3% for the six months ended 30 June 2007 and 2008 respectively.

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

	For the six months ended 30 June	
	2008	2007
Average gross profit margin	**10.3%**	9.6%
— Aluminium profiles with surface finishing	**10.1%**	7.8%
— Plain aluminium profiles	**11.0%**	13.1%

The improvement in overall gross profit margin was mainly attributable to the following factors:

1. Increase in overall production volume by approximately 22.2% from 39,410 tonnes to 48,140 tonnes for the six months ended 30 June 2007 and 2008 respectively. A better production economy of scale was achieved. The corresponding sales to production ratio was further improved from 94.8% to 96.4% during the period under review.

2. The equipment utilisation rate was improved from approximately 79.3% for the six months ended 30 June 2007 to approximately 80.2% for the six months ended 30 June 2008.

3. The slightly change in our Group's product mix as a result of the increase in the sales volume of aluminium profiles with surface finishing during the period under review, whose gross profit margin was improved from 7.8% to 10.1% for the six months ended 30 June 2007 and 2008 respectively resulting from the increase in production volume. A better production economy of scale was achieved.

4. However, it was partially offset by the decrease in gross profit margin of plain aluminium profiles as a result of the shift of production capacity from producing plain aluminium profiles to producing aluminium profiles with surface finishing in the period under review in order to meet the customers' demand.

Other net (loss)/income

Other net income decreased from RMB177.50 million for the six months ended 30 June 2007 to a net loss of RMB1.80 million for the six months ended 30 June 2008. The decrease was primarily due to the fact that our Group recognised a one-off gain on disposal of lease prepayments of approximately RMB174.94 million, net of business tax and surcharges during the six months ended 30 June 2007.

Distribution expenses

Our distribution expenses increased by approximately 28.9% from RMB15.58 million to RMB20.09 million, while our distribution expenses as a percentage of turnover increased slightly from approximately 1.7% to 1.9% for the six months ended 30 June 2007 and 2008 respectively, which were consistent with the increase in turnover.

Administrative expenses

Our administrative expenses increased by approximately 128.8% from RMB13.03 million to RMB29.81 million, while our administrative expenses as a percentage of turnover increased significantly from approximately 1.4% to 2.7% for the six months ended 30 June 2007 and 2008 respectively. The substantial increase in our administrative expenses was mainly attributable due to the following factors:

1. Payment of one-off IPO related professional fees of RMB9.61 million during the period under review.

2. Increase in staff costs according to statutory requirements.

Results from operating activities

As a result of the factors discussed above, the results from operating activities decreased by 74.4% from RMB235.89 million to RMB60.29 million for the six months ended 30 June 2007 and 2008 respectively. The decrease in operating profit was mainly attributable to the decrease in one-off gain on disposal of lease prepayments and increase in administrative expenses resulting from the payment of one-off IPO related professional fees.

Net finance costs

Net finance costs increased by 68.8% from RMB11.63 million to RMB19.63 million for the six months ended 30 June 2007 and 2008 respectively. The increase in net finance costs was mainly due to the increase in interest expenses on bank borrowings and average bank borrowings to finance working capital and capital expenditures for the expansion of our business during the period under review.

Income tax (expense)/credit

(a) The Group is not subject to any income tax in the Cayman Islands and the BVIs. No provision for Singapore Corporate Profits Tax and Hong Kong Profits Tax was made as the Group has no assessable profits subject to Singapore Corporate Profits Tax and Hong Kong Profits Tax during the period (2007: Nil).

(b) Pursuant to the income tax rules and regulations of the PRC, the PRC entity of the Group and the Predecessor Entities are liable to PRC enterprise income tax as follows:

    (i) Guangdong Xingfa is a wholly foreign owned enterprise and is entitled to tax concessions whereby the profits for the first two financial years beginning with the first profit-making year are exempted from income tax in the PRC and the profits for each of the subsequent three years are taxed at 50% of the prevailing tax rate set by the local authority. No provision for PRC income tax has been made during 2007 as 2006 is the entity's first profit-making year.

    On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the new tax law which has taken effect on 1 January 2008. In December 2007, the Implementation Rules of the Corporate Income Tax Law of the PRC and "Guo Fa [2007] No. 39" were promulgated to specify certain implementation details and grandfathering arrangements of the new tax law. As a result of the new tax law, Xingfa Aluminium is subject to a unified tax rate of 25% and will continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. The applicable tax rate of Xingfa Aluminium during 2008 is 12.5%.

(ii) Following the consummation of the transfer of the operations of Aluminium Profile Business from the Predecessor Entities to the subsidiaries now comprising the Group on 28 July 2007, the Predecessor Entities did not form part of the Group. The applicable tax rates of the Predecessor Entities for the period ended 30 June 2007 were as follows:

- Xingfa Group is a limited liability company established under the laws of the PRC. It is liable to the PRC enterprise income tax at a rate of 33%.

- Foshan Xingfa is located in the coastal economic open zone of Foshan, pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment & Foreign Enterprises and relevant rules, the income tax rate applicable to the entity is 27%.

- Xingfa Innovation is recognised as an Advanced Technology Enterprise according to the approval from Guangdong Provincial Department of Science and Technology. Pursuant to the approval of Local Tax Bureau of Foshan in 2003, income tax rate applicable to the entity is 15%.

(c) Pursuant to the new tax law, from 1 January 2008, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC, will be subject to withholding tax at the rate of 10% (unless reduced by treaty) on various types of passive income such as dividends derived from sources within the PRC. As Guangdong Xingfa is directly and collectively held by a Hong Kong incorporated subsidiary and a Singapore incorporated subsidiary, a rate of 5% is applicable to the calculation of this withholding tax.

According to the notice Caishui [2008] No. 1 released by the Ministry of Finance and the State Administration of Taxation, distributions of the pre-2008 retained profits of a foreign-invested enterprise to a foreign investor in 2008 or after are exempted from corporate income tax. Accordingly, the retained profits as at 31 December 2007 in the Group's foreign-invested enterprise' books and accounts will not be subject to 5% withholding tax on future distributions.

The Group is liable to withholding tax on dividends distributed from Guangdong Xingfa in respect of its profits generated on or after 1 January 2008. At 30 June 2008, temporary differences relating to the undistributed profits of Guangdong Xingfa amounted to RMB47,313,000. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of Guangdong Xingfa and it has been determined that it is probable that profits will not be distributed by Guangdong Xingfa in the foreseeable future.

Profit for the period and the net profit margin

As a result of the foregoing factors, the net profit for the period under review decreased by approximately 85.0% from RMB224.59 million to RMB33.67 million for the six months ended 30 June 2007 and 2008 respectively. The decrease in the net profit margin from 24.8% to 3.1% during these two periods of review was mainly attributable to the combined effects of the decrease in one-off gain on disposal of lease prepayments of approximately RMB172.86 million (net of business tax, surcharges and land appreciation tax), the increase in one-off payment of IPO related professional fees of RMB9.61 million during the period under review and the increase in provision for enterprise income tax by RMB7.30 million.

If the above-mentioned one-off gain on disposal of lease prepayments of RMB172.86 million and one-off IPO payment of related professional fees of RMB9.61 million were excluded, the operating profit before taxation decreased slightly by approximately 2.2% from RMB51.40 million to RMB50.28 million for the six months ended 30 June 2007 and 2008 respectively.

Liquidity and capital resources

Current and quick ratios

The following table sets out the summary of our Group's current and quick ratios as at 30 June 2008 and 31 December 2007:

	As at 30 June 2008	As at 31 December 2007
Current ratio *(Note)*	**1.68**	1.69
Quick ratio *(Note)*	**1.28**	1.25

Note:

Current ratio is calculated based on the total current assets divided by the total current liabilities at the end of the period.

Quick ratio is calculated based on the difference between the total current assets and the inventories divided by the total current liabilities at the end of the period.

As at 30 June 2008, the current ratio and the quick ratio of our Group had remained slightly stable at approximately 1.68 and 1.28 respectively, which was mainly attributable to the combined effects of (i) increase in inventories of approximately RMB80.88 million to cope with the business expansion; and (ii) increase in cash and bank balances of RMB190.05 million from the IPO proceeds in the period under review.

Gearing ratio

The following table sets out the summary of our Group's gearing ratio as at 30 June 2008 and 31 December 2007:

	As at 30 June 2008	As at 31 December 2007
Gearing ratio *(Note)*	**28.7%**	35.5%

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

As at 30 June 2008, our gearing ratio was improved to 28.7%, which was mainly due to the increase in total assets as a result of the receipt of IPO proceeds after listing on 31 March 2008.

Inventory turnover days

The following table sets out the summary of our Group's inventory turnover days as at 30 June 2008 and 31 December 2007:

	Period ended 30 June 2008	Year ended 31 December 2007
Inventory turnover Days *(Note)*	**52**	39

Note: Inventory turnover days is calculated based on the average of the beginning and ending balance of inventory for the year divided by cost of sales during the year/period multiplied by 365/181 days.

For the period ended 30 June 2008, our inventory turnover days increased to 52 days as compared to 39 days for the year ended 31 December 2007.

Debtors' turnover days

The following table sets out the summary of our Group's debtors' turnover days as at 30 June 2008 and 31 December 2007:

	Period ended 30 June 2008	Year ended 31 December 2007
Debtors' turnover days *(Note)*	**70**	65

Note: Debtors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills receivables for the year divided by turnover during the year/period multiplied by 365/181 days.

For the period ended 30 June 2008, our debtors' turnover days increased to 70 days as compared to 65 days for the year ended 31 December 2007.

Creditors' turnover days

The following table sets out the summary of our Group's creditors' turnover days as at 30 June 2008 and 31 December 2007:

	Period ended 30 June 2008	Year ended 31 December 2007
Creditors' turnover days *(Note)*	**42**	53

Note: Creditors' turnover days is calculated based on the average of the beginning and ending balance of trade and bills payables for the year divided by cost of sales during the year/period multiplied by 365/181 days.

For the period ended 30 June 2008, our creditors' turnover days decreased to 42 days as compared to 53 days for the year ended 31 December 2007.

Cash flow

The following table summarises our Group's cash flow during the six months ended 30 June 2007 and 2008:

	For the six months ended 30 June	
	2008	2007
	RMB' million	*RMB' million*
Net cash generated from/(used in) operating activities	**70.06**	(47.27)
Net cash (used in)/generated from investing activities	**(121.14)**	175.97
Net cash generated from financing activities	**245.72**	2.17
Cash and cash equivalents at the end of the period	**336,459**	186,958

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings.

Our Directors believe that on a long-term basis, our liquidity will be funded from operations, if necessary, additional equity financing or bank borrowings.

Capital expenditures

Capital expenditures were used for acquisition of property, plant and equipment. For the six months ended 30 June 2008, our Group's capital expenditure were approximately RMB50.48 million. These capital expenditures were mainly for acquisition of plant and equipment for our Group's production plant located at Sanshui District, Foshan City, Guangdong Province, the PRC ("Sanshui Factory").

Loans and borrowings

As at 30 June 2008, our Group's loans and borrowings amounted to RMB440.05 million. Our Group's loans and borrowings primarily comprise of (1) short-term loans and borrowings of RMB380.05 million provided by local banks; and (2) long-term loans and borrowings of RMB60.00 million provided by local banks. These loans and borrowings were secured by the Group's inventories, trade receivables and pledged deposits.

Guarantee

Certain banking facilities amounted to RMB230,000,000 (31 December 2007: RMB385,000,000) were guaranteed by certain related parties, such backing facilities were utilised to the extent of RMB97,000,000 (31 December 2007: RMB370,000,000).

Contingent liabilities

At 30 June 2008, there were no material contingent liabilities.

Pledge of assets

Certain assets of the Group have been pledged to secure the bank borrowings of the Group. For details, please refer to notes 12 and 15 to the unaudited consolidated financial statements.

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- **market risk;**
- **credit risk; and**
- **liquidity risk**

(a) Market risk

Increasing market fluctuations may result in significant cash-flow and profit volatility risk for the Group. The Group's income or the values of its holding of financial instruments are affected by changes in commodity price of aluminium, foreign exchange rate and interest rate. The objective of market risk management is to manage and control market risk exposures within the acceptable parameters, while minimising the costs on managing the risk.

The Group seeks to manage and control the market risks primarily through its regular operating and financial activities, and uses derivative instruments when deemed appropriate. All such transactions are carried out within the guidelines set by the Board of Directors.

(i) Commodity price risk on aluminium

Aluminium ingots are the major raw materials of the Group's products which account for approximately 80% of total cost of sales. Fluctuations on commodity price of aluminium will have a significant impact on the Group's earnings, cash flows as well as the value of the inventories. The Group uses its futures contracts traded on the Shanghai Futures Exchange to reduce its risks arising from fluctuations in aluminium price. The Group enters futures based on the inventories on hand, expected usage of aluminium and sales requirements. The Group considers that it is not cost effective to maintain a highly effective hedge on transaction basis.

(ii) *Foreign currency risk*

As the Group's principal activities are carried out in the PRC, the Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the operations in the PRC, RMB, to which they relate. The transactions in foreign currency are primarily denominated in Unite States Dollars ("USD"). The Group currently does not have a policy to exercise fair value hedges on foreign currency risk as the impact of foreign currency on the Group's total cost of sales is minimal. However, management monitors foreign currency exposure to ensure that the net exposure is kept to an acceptable level and will consider hedging significant transactions should the need arise.

(iii) *Interest rate risk*

The Group adopts a policy of ensuring that over 50% of its exposure to changes in interest rates on borrowings is on a fixed rate basis. The Group's loans and borrowings are mainly short-term in nature and on fixed rate basis.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and other receivables.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group' customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available. Credit limit is established for each customer which represents the maximum open amount without requiring approval from the Board of Directors; these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis. The Group chases the customers to settle the due balances and monitors the settlement progress on an ongoing basis.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Human resources

As at 30 June 2008, our Group employed a total of 2,254 full time employees in the PRC which included management staff, technicians, salespersons and workers. For the six months ended 30 June 2008, our Group's total expenses on the remuneration of employees was RMB25.01 million which represented approximately 2.3% of the turnover of our Group. Our Group's emolument policies are formulated on the performance of individual employees, which will be reviewed regularly every year. Apart from the provident fund scheme (according to the provisions of the Mandatory Provident Fund Schemes Ordinance for Hong Kong employees) or state-managed retirement pension scheme (for the PRC employees) and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

Prospects

We are one of the leading aluminium profiles manufacturers in the PRC and are principally engaged in the manufacture and sale of aluminium profiles. Our Group was awarded as the "No. 1 of the Top-Ten National Aluminium Profiles Enterprises" by China Non-Ferrous Metals Fabrication Industrial Association ("CNFA") in 2003 and such status was reconfirmed by CNFA in February 2008.

We are now in the process to relocate our production operation from the production plant located at Chancheng District, Foshan City, Guangdong Province, the PRC ("Chancheng Factory") to the Sanshui Factory. Our Directors expect the entire relocation process will be completed in December 2009. Upon integration of production facilities originally located at the Chancheng Factory and new production facilities to be acquired until June 2010, the Sanshui Factory is expected to have an annual designed production capacity of aluminium profiles of approximately 150,000 tonnes in 2010.

Use of Proceeds from the Company's Initial Public Offering

The proceeds from the Company's issue of new shares on the Stock Exchange in March 2008, after deduction of related issuance expenses, amounted to approximately HK$220.97 million (approximately RMB198.75 million). These net proceeds have been temporarily placed in short-term deposits with licensed banks in Hong Kong as at 30 June 2008. In July 2008, the Group has utilised approximately HK$103.56 million (approximately RMB93.15 million) from the proceeds to finance the acquisition of 100% equity interest in Foshan Xinggao Aluminium Co., Ltd. ("Xinggao Aluminium") and certain leased machineries. Please refer to the circular of the Company dated 9 July 2008.

OTHER INFORMATION

Post Balance Sheet Event

The Group acquired 100% interest in Xinggao Aluminium in July 2008. For details please refer to Note 21 to the Unaudited Consolidated Financial Statements.

Interim Dividend

Having considered the need to retain the Company's cash for working capital and capital expenditure, the Board did not recommend any interim dividend for the six months ended 30 June 2008.

Share Option Scheme

The Company conditionally adopted a share option scheme (the "**Scheme**") on 29 February 2008. The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

The principal terms of the Scheme are summarised as follows:

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of the Group must not exceed 41,800,000 Shares, being 10% of Shares in issue on the date of listing of the Shares on the Stock Exchange unless approval of the shareholders of the Company ("**Shareholders**") has been obtained, and which must not in aggregate exceed 30% of the Shares in issue from time to time.

No share option was granted by the Company since its adoption. As at 30 June 2008, the total number of Shares available for issue under the Scheme is 41,800,000 Shares, which represents 10% of the issued Shares as at the date of listing of the Shares on the Stock Exchange.

The maximum number of Shares issued and to be issued upon exercise of the options granted to each eligible participant (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the issued Shares from time to time.

The subscription price for the Shares under the Scheme shall be such price as the board of Directors ("**Board**") may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of a Share as stated in the Stock Exchange's daily quotation sheets on the date of the Board approving the grant of an option, which must be a business day ("**Offer Date**"); (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share.

An option may be exercised in whole or in part in accordance with the terms of the Scheme at any time during the period commencing immediately after the business day on which the option is deemed to be granted and accepted in accordance with the Scheme ("**Commencement Date**") and expiring on such date of the expiry of the option as the Board may in its absolute discretion determine and which shall not exceed ten years from the Commencement Date but subject to the provisions for early termination thereof as set out in the Scheme.

Upon acceptance of the grant of an option, the grantee shall pay HK$1.00 to the Company as nominal consideration for the grant.

The Scheme shall be valid and effective for a period of 10 years commencing on 31 March 2008.

Directors' Rights to Acquire Shares or Debt Securities

At no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

Purchase, Sale or Redemption of Listed Securities of the Company

The listing of the Company's shares commenced on 31 March 2008. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Interim Period.

Sufficiency of Public Float

Based on Information that is available to the Company and within the knowledge of its Directors, the Company has maintained sufficient public float as required under the Listing Rules during the period from 31 March 2008 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange) to 30 June 2008.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's article of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders

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

As at 30 June 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules ("Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Company/Name of associated corporations	Name of directors	Capacity	Number and class of securities *(Note)*	Percentage shareholding in the same class of securities as at 30 June 2008
Company	LUO Su	Beneficial owner	136,978,600 ordinary Shares *(L)*	32.77%
Company	LUO Riming	Beneficial owner	96,495,300 ordinary Shares *(L)*	23.09%
Company	LIAO Yuqing	Beneficial owner	59,126,100 ordinary Shares *(L)*	14.15%

Note: The letter "L" represents the director's interests in the shares.

Save as disclosed above, as at 30 June 2008, none of the Directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders and Other Persons Who Are Required to Disclose Their Interests Pursuant to Part XV of the SFO

Save as disclosed in the paragraph headed "Directors' Interests in shares, underlying shares and debentures of the Company and its associated corporations" above, as at 30 June 2008, the Company has not been notified of any other person (other than a Director or chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which are required to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Corporate Governance

The Company has adopted the Code on Corporate Governance Practices (the "**CG Code**") as contained in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange as its own code of corporate governance.

During the period from 31 March 2008 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange) to 30 June 2008, the Company has fully complied with the applicable code provisions of the CG Code.

Model Code for Securities Transactions by Directors

The Company has also adopted a code of conduct governing securities transactions by directors and senior management of the Group on terms as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard set out in the Model Code during the period from 31 March 2008 (being the date on which the shares of the Company first commenced dealings on the Stock Exchange) to 30 June 2008.

Audit Committee

The audit committee of the Company has met with the external auditors of the Company, KPMG, to review the accounting principles and practices adopted by the Group and the unaudited consolidated results of the Group for the six months ended 30 June 2008. The audit committee is composed of the three independent non-executive Directors of the Company. The chairman of the audit committee has professional qualification and experience in financial matters.