興發鋁業控股有限公司

# XINGFA ALUMINIUM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(HKEX stock code: 98)


# 09

# INTERIM REPORT

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# CORPORATE INFORMATION

## DIRECTORS AND BOARD COMMITTEES

### Directors

#### *Executive Directors*

LUO Su *(Chairman)*
LUO Riming *(Chief Executive Officer)*
LIAO Yuqing
LAW Yung Koon
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

## COMPANY SECRETARY

WONG Siu Ki *(CPA, FCCA, ACA)*

## AUTHORIZED REPRESENTATIVES

WANG Zhihua
WONG Siu Ki
LAM Ying Hung, Andy
*(alternate to WANG Zhihua)*

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 23 Renhe Road,
Nanzhuang Town,
Chancheng District, Foshan City,
Guangdong Province, China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1513,
15th Floor, Tower 6,
The Gateway,
Harbour City,
Tsim Sha Tsui,
Kowloon,
Hong Kong

## PRINCIPAL BANKERS

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

## LEGAL ADVISER

**As to Hong Kong law:**

Leung & Lau

**As to PRC law:**

Jingtian and Gongcheng

**As to Cayman Islands law:**

Conyers Dill & Pearman

## AUDITORS

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

## SHARE REGISTRARS

**Principal Share Registrar and Transfer Office in the Cayman Islands**

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 705
Grand Cayman KY1-1107
Cayman Islands

**Branch Share Registrar and Transfer Office in Hong Kong**

Tricor Investor Services Limited
26th Floor, Tesbury Centre,
28 Queen's Road East
Wanchai, Hong Kong.

## COMPLIANCE ADVISER

ICBC International Capital Limited

## INVESTOR RELATIONS

Strategic Financial Relations (China) Limited

## WEBSITE

www.xingfa.com

## STOCK CODE

00098.HK

# INTRODUCTION

The board of directors ("**Directors**" or the "**Board**") of Xingfa Aluminium Holdings Limited ("**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**", "**our Group**", "**we**" or "**us**") prepared under International Financial Reporting Standards ("**IFRS**") for the six months ended 30 June 2009 ("**1H09**"), together with the comparative figures for the corresponding period in 2008 ("**1H08**") and the relevant explanatory notes as set out below. The consolidated results are unaudited, but have been reviewed by the Company's independent auditors, KPMG, and the audit committee of the Company.

# CONSOLIDATED INCOME STATEMENT

*for the six months ended 30 June 2009 – unaudited*
*(Expressed in Renminbi)*

| | | For the six months ended 30 June | |
|---|---|---|---|
| | | **2009** | 2008 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| **Turnover** | *3&4* | **771,466** | 1,084,200 |
| Cost of sales | | **(692,360)** | (972,212) |
| **Gross profit** | | **79,106** | 111,988 |
| Other net income/(loss) | *5* | **5,301** | (1,795) |
| Distribution expenses | | **(12,721)** | (20,090) |
| Administrative expenses | | **(23,597)** | (29,809) |
| **Profit from operations** | | **48,089** | 60,294 |
| Finance income | *6(a)* | **1,592** | 1,732 |
| Finance expenses | *6(a)* | **(11,997)** | (21,358) |
| **Net finance costs** | *6(a)* | **(10,405)** | (19,626) |
| **Profit before taxation** | *6* | **37,684** | 40,668 |
| Income tax expenses | *7* | **(4,176)** | (6,996) |
| **Profit for the period attributable to equity shareholders of the Company** | | **33,508** | 33,672 |
| **Basic and diluted earnings per share *(RMB yuan)*** | *9* | **0.08** | 0.09 |

The notes on pages 10 to 31 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*for the six months ended 30 June 2009 – unaudited*
*(Expressed in Renminbi)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| **Profit for the period** | **33,508** | 33,672 |
| **Other comprehensive income for the period (after tax and reclassification adjustments):** | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | **143** | (763) |
| **Total comprehensive income for the period attributable to equity shareholders of the Company** | **33,651** | 32,909 |

The notes on pages 10 to 31 form part of this interim financial report.

# CONSOLIDATED BALANCE SHEET

*at 30 June 2009 – unaudited*
*(Expressed in Renminbi)*

| | Note | **At 30 June 2009 RMB'000** | At 31 December 2008 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **392,950** | 351,713 |
| Lease prepayment | | **152,119** | 153,661 |
| Deferred tax assets | | **–** | 390 |
| | | **545,069** | 505,764 |
| **Current assets** | | | |
| Inventories | 11 | **215,857** | 196,332 |
| Derivative financial instruments | | **2,155** | – |
| Trade and other receivables | 12 | **422,188** | 466,720 |
| Pledged deposits | 13 | **34,333** | 36,646 |
| Cash and cash equivalents | 14 | **141,819** | 214,905 |
| | | **816,352** | 914,603 |
| **Current liabilities** | | | |
| Loans and borrowings | 15 | **489,249** | 559,329 |
| Trade and other payables | 16 | **192,219** | 195,544 |
| Derivative financial instruments | | **–** | 1,137 |
| Current tax payables | | **3,283** | 595 |
| | | **684,751** | 756,605 |
| **Net current assets** | | **131,601** | 157,998 |
| **Total assets less current liabilities** | | **676,670** | 663,762 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | | **157** | – |
| | | **157** | – |
| **Net assets** | | **676,513** | 663,762 |
| **Capital and reserves** | | | |
| Paid-in capital | | **3,731** | 3,731 |
| Reserves | | **672,782** | 660,031 |
| **Total equity** | | **676,513** | 663,762 |

The notes on pages 10 to 31 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*for the six months ended 30 June 2009 – unaudited*
*(Expressed in Renminbi)*

| | Attributable to equity shareholders of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital *RMB'000* | Share premium *RMB'000* | Other reserve *RMB'000* | Statutory reserves *RMB'000* | Exchanges reserves *RMB'000* | Retained earnings *RMB'000* | Total *RMB'000* |
| **Balance at 1 January 2008** | 210,000 | – | – | 47,880 | – | 177,448 | 435,328 |
| **Changes in equity for the six months ended 30 June 2008:** | | | | | | | |
| Arising from Reorganisation | (209,822) | – | 209,822 | – | – | – | – |
| Share issued under the placing and global offering | 959 | 217,763 | – | – | – | – | 218,722 |
| Share issuance costs | – | (19,009) | – | – | – | – | (19,009) |
| Capitalisation issue | 2,594 | (2,594) | – | – | – | – | – |
| Total comprehensive income for the period | – | – | – | – | (763) | 33,672 | 32,909 |
| **Balance at 30 June 2008 and 1 July 2008** | 3,731 | 196,160 | 209,822 | 47,880 | (763) | 211,120 | 667,950 |
| **Changes in equity for the six months ended 31 December 2008:** | | | | | | | |
| Total comprehensive income for the period | – | – | – | – | 171 | (4,359) | (4,188) |
| Transfer from retained earnings | – | – | – | 5,967 | – | (5,967) | – |
| **Balance at 31 December 2008** | 3,731 | 196,160 | 209,822 | 53,847 | (592) | 200,794 | 663,762 |
| **Balance at 1 January 2009** | 3,731 | 196,160 | 209,822 | 53,847 | (592) | 200,794 | 663,762 |
| **Changes in equity for the six months ended 30 June 2009:** | | | | | | | |
| Dividends approved in respect of the previous year | – | – | – | – | – | (20,900) | (20,900) |
| Total comprehensive income for the period | – | – | – | – | 143 | 33,508 | 33,651 |
| **Balance at 30 June 2009** | **3,731** | **196,160** | **209,822** | **53,847** | **(449)** | **213,402** | **676,513** |

The notes on pages 10 to 31 form part of this interim financial report.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

*for the six months ended 30 June 2009 – unaudited*
*(Expressed in Renminbi)*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| **Cash generated from operations** | **63,940** | 72,944 |
| **Income tax paid** | **(941)** | (2,875) |
| **Net cash generated from operating activities** | **62,999** | 70,069 |
| **Net cash (used in) investing activities** | **(31,931)** | (121,140) |
| **Net cash (used in)/generated from financing activities** | **(104,297)** | 245,715 |
| **Net (decrease)/increase in cash and cash equivalents** | **(73,229)** | 194,644 |
| **Cash and cash equivalents at 1 January** | **214,905** | 146,411 |
| **Effect of foreign exchange rate changes** | **143** | (4,596) |
| **Cash and cash equivalents at 30 June** | **141,819** | 336,459 |

The notes on pages 10 to 31 form part of this interim financial report.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

*(Expressed in Renminbi)*

## 1 Basis of presentation and preparation

### *(a) General information and group reorganisation*

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 the manufacturing and sales of aluminium profiles (the "Aluminium Profile Business").

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries 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 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") in the People's Republic of China (the "PRC") were transferred to the subsidiaries now comprising the Group by 28 July 2007 and the Company became the holding company of the subsidiaries now comprising the Group from 29 February 2008. The shares of the Company have been listed on the Main Board of the Stock Exchange since 31 March 2008. Details of the Reorganisation are set out in the prospectus dated 17 March 2008 issued by the Company.

### *(b) Basis of presentation*

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity holders (referred to as the "Controlling Shareholders"), before and immediately after the Reorganisation, the Group is regarded as a continuing entity resulting from the Reorganisation under common control. Accordingly, the Company has applied merger accounting to account for the Reorganisation in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), under which the interim financial report 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 with effect from 1 January 2008, rather than from 29 February 2008. Accordingly, the consolidated results of the Group for the six months ended 30 June 2008 include the results of the Company and its subsidiaries now comprising the Group for the six months ended 30 June 2008 (or where the companies were established/incorporated at a date later than 1 January 2008, for the period from the date of establishment/incorporation to 30 June 2008) as if the current group structure had been in existence with effect from 1 January 2008.

All material inter-group transactions and balances have been eliminated on consolidation. In the opinion of the Directors, the interim financial report prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

### *(c) 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 (the "Listing Rules"), including compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, adopted by the International Accounting Standards Board ("IASB"). It was authorised for issuance on 28 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 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 2008 annual financial statements. 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 International Financial Reporting Standards ("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 HKICPA. KPMG's independent review report to the Board of Directors is included on page 32.

The financial information relating to the financial year ended 31 December 2008 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2008 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 April 2009.

## 2 Changes in accounting policies

The IASB has issued certain new and revised IFRSs, a number of amendments to IFRSs and new Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 8, *Operating segments*
- IAS 1 (revised 2007), *Presentation of Financial Statements*
- Improvements to IFRSs (2008)
- Amendments to IFRS 1, *First-time Adoption of International Financial Reporting Standards, and IAS 27, Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- Amendments to IFRS 7, *Financial Instruments: Disclosures – Improving disclosures about financial instruments*
- IAS 23 (revised 2007), *Borrowing costs*
- Improvements to IFRSs (2009)

The "Improvements to IFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. These amendments have no material impact on the accounting policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments is in the interim financial report is as follows:

- IFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on geographical areas. The adoption of IFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management, and has resulted in new reportable segments being identified and presented *(see note 3)*. As this is the first period in which the Group has presented segment information in accordance with the IFRS 8, additional explanation has been included in the interim financial report which explains the basis of preparation of the information. Corresponding amounts have also been provided on a basis consistent with the revised segment information.

- The Group has adopted early an amendment in the "Improvements to IFRSs (2009)" which amended IFRS 8 such that measure of total assets for each reportable segment is only required to be presented if it is regularly provided to the Group's chief operating decision maker. Segment assets are not reported to the Group's chief operating decision maker regularly. As a result, reportable segment assets have not been presented in the interim financial report.

- As a result of adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23, *Borrowing Costs (2007)*. In accordance with the transitional provisions of such standard, comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. The Group has capitalised borrowing costs with respect to property, plant and equipment under construction with effect from 1 January 2009.

## 3 Operating segments

The Group manages its businesses by product lines. On the first-time adoption of IFRS 8, *Operating segments*, and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. Except for the reportable segment of aluminium profiles with surface finishing, no operating segments have been aggregated to form the following reportable segments.

- Plain aluminium profiles: this segment manufactures and sells plain aluminium profiles, mainly for industrial usage.

- Aluminium profiles with surface finishing: this segment manufactures and sells aluminium profiles with surface finishing, including anodic oxidation aluminium profiles, electrophoresis coating aluminium profiles, powder coating aluminium profiles and PVDF coating aluminium profiles. Aluminium profiles with surface finishing are widely used in architecture decoration.

All other segments include the provision of processing services and manufacture and sale of aluminium panels, moulds and spare parts.

### (a) *Segment results, assets and liabilities*

In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results attributable to each reportable segment.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

The measure used for reporting segment profit is gross profit. The Group's senior executive management is provided with segment information concerning segment revenue and profit. Segment assets and liabilities are not reported to the Group's senior executive management regularly.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2009 and 2008 respectively is set out below:

| | Plain aluminium profiles | | Aluminium profiles with surface finishing | | All other segments | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Reportable segment revenue** | | | | | | | | |
| Revenue from external customers | **182,675** | 330,634 | **534,447** | 697,160 | **54,344** | 56,406 | **771,466** | 1,084,200 |
| **Reportable segment profit** | | | | | | | | |
| Gross profit | **41,256** | 36,344 | **30,093** | 70,414 | **7,757** | 5,230 | **79,106** | 111,988 |

### (b) *Reconciliations of reportable segment profit*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Reportable segment profit derived from Group's external customers | **79,106** | 111,988 |
| Other net income | **5,301** | (1,795) |
| Distribution expenses | **(12,721)** | (20,090) |
| Administrative expenses | **(23,597)** | (29,809) |
| Net finance costs | **(10,405)** | (19,626) |
| Consolidated profit before taxation | **37,684** | 40,668 |

## 4 Seasonality of operations

The Group's operation experiences seasonality where sales for the period from January to March are usually 30% lower than other quarters in the year. The seasonality is primarily attributable to the decreased demand for its products during the Chinese New Year holidays.

## 5 Other net income/(loss)

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Government grants | **961** | 70 |
| Rental income | **5** | 171 |
| Net gains/(losses) on derivative financial instruments | **4,121** | (1,967) |
| Others | **214** | (69) |
| | **5,301** | (1,795) |

## 6 Profit before taxation

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

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| **(a) Finance income and expenses:** | | |
| Interest income on bank deposits | **(1,592)** | (1,732) |
| Finance income | **(1,592)** | (1,732) |
| Interest expense on bank loans | **12,711** | 15,758 |
| *Less:* interest expense capitalised into construction in progress | **(476)** | – |
| Net foreign exchange (gain)/losses | **(238)** | 5,473 |
| Changes in fair value of foreign exchange forward contracts | **–** | 127 |
| Finance expenses | **11,997** | 21,358 |
| Net finance costs | **10,405** | 19,626 |
| **(b) Other items:** | | |
| Depreciation | **16,959** | 11,358 |
| Amortisation of lease prepayments | **1,542** | – |
| Research and development costs | **1,080** | 1,339 |
| Writing down of inventories *(note 11)* | **439** | – |
| Impairment loss on trade and other receivables *(note 12)* | **373** | – |
| Operating lease charges | | |
| – plants and machineries | **–** | 3,092 |
| – properties | **4,800** | 5,899 |

## 7 Income tax expenses

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| Provision for PRC income tax | **2,953** | 6,996 |
| Provision for Hong Kong Profits Tax | **676** | – |
| | **3,629** | 6,996 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **547** | – |
| | **4,176** | 6,996 |

(a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands, respectively.

(b) The provision for Hong Kong Profits Tax for the six months ended 30 June 2009 is calculated by applying the estimated annual effective tax rate of 16.5% (2008:16.5%).

(c) Pursuant to the income tax rules and regulations of the PRC, the PRC subsidiaries of the Group are liable to PRC enterprise income tax as follows:

- 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. The prevailing tax rate of Guangdong Xingfa in 2009 is 25% (2008: 25%), but Guangdong Xingfa can continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. The income tax rate applicable to Guangdong Xingfa was 12.5% for the six months ended 30 June 2009 (2008: 12.5%). 2008 and 2009 are the entity's third and fourth profit making year respectively.

- Foshan Xinggao Aluminium Co., Ltd. ("Xinggao Aluminium") is a limited liability company established under the laws of the PRC and is a wholly-owned subsidiary of Guangdong Xingfa. It is liable to the PRC enterprise income tax at a rate of 25% for the six months ended 30 June 2009 (2008: 25%).

(d) 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 held by a Hong Kong 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. As at 30 June 2009, the remaining undistribution pre-2008 profits of Guangdong Xingfa, which amounted to RMB155,153,000, are not subject to the 5% withholding tax in future distributions.

The Group is liable to withholding tax on dividends distributed from Guangdong Xingfa of its profits generated on or after 1 January 2008. At 30 June 2009, post 1 January 2008 undistributed profits amounted to RMB88,678,000 (2008:RMB47,313,000). Deferred tax liabilities of RMB4,434,000 (2008:RMB2,366,000) have not been recognised in respect of these undistributed profits as the Company controls the dividend policy of Guangdong Xingfa and it has determined that Guangdong Xingfa will not distribute post 1 January 2008 profits in the foreseeable future.

## 8 Dividends

### *(i) Dividends payable to equity shareholders attributable to the interim period*

The directors do not propose the payment of interim dividends for the six months ended 30 June 2009 (2008: Nil).

### *(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Final and special dividends in respect of the previous financial year, approved and paid during the interim period, of RMB 0.05 per share (2008: Nil) | **20,900** | – |

## 9 Earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2009 was based on the profit attributable to equity share holders of the Company of RMB33,508,000 (six months ended 30 June 2008: RMB33,672,000) and the weighted average number of shares in issue during the six months ended 30 June 2009 of 418,000,000 (six months ended 30 June 2008: 364,705,000). The weighted average number of shares in issue for the six months ended 30 June 2008 is calculated on the assumption that the 311,410,000 shares issued upon the Reorganisation were outstanding throughout the entire period.

| | **2009** | 2008 |
|---|---|---|
| | ***'000 shares*** | *'000 shares* |
| Share issued at 1 January | **418,000** | 311,410 |
| Effect of shares issued upon placing and public offering on 31 March 2008 | **–** | 53,295 |
| Weighted average number of shares at 30 June | **418,000** | 364,705 |

There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2009 and 2008, and therefore, the diluted earnings per share are the same as the basic earnings per share.

## 10 Property, plant and equipment

During the six months ended 30 June 2009, the Group acquired items of plant and machinery with a cost of RMB58,196,000 (six months ended 30 June 2008: RMB50,484,000).

## 11 Inventories

Certain inventories with aggregate carrying value of RMB164,200,000 were pledged as securities for bank facilities of the Group as at 30 June 2009 (31 December 2008: 146,990,000) *(Note 15(b))*.

During the six months ended 30 June 2009, the Group recognised a reduction in the amount of inventories of RMB439,000 (six months ended 30 June 2008: nil), being the amount of a write-down of inventories to net realisable value.

## 12 Trade and other receivables

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade debtors | **231,469** | 281,422 |
| Bills receivable | **121,211** | 138,544 |
| Other receivables, prepayment and deposits | **69,508** | 46,754 |
| | **422,188** | 466,720 |

Certain trade debtors and bills receivable with an aggregate carrying value of RMB28,252,000 were pledged as securities for bank facilities of the Group as at 30 June 2009 (31 December 2008: RMB51,346,000) *(Note 15(b))*.

Included in trade and other receivables are debtors and bills receivable (net of allowance for doubtful debts) with the following aging analysis as of the balance sheet date. The credit terms granted by the Group to customers generally range from 30 days to 60 days, generally according to the credit history of each customer.

| | **At 30 June 2009** ***RMB'000*** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Current | **351,054** | 419,966 |
| 3 to 6 months past due | **1,626** | – |
| | **352,680** | 419,966 |

At 30 June 2009, the Group's trade debtor of RMB373,000 (six months ended 30 June 2008: nil) was individually determined to be impaired. The individually impaired receivable related to a customer that was in financial difficulties and the management assessed that the receivable is expected not to be recovered. Consequently, a specific allowance for doubtful debt of RMB373,000 was recognised.

## 13 Pledged deposits

At 30 June 2009, pledged deposits amounted to RMB26,097,000 (31 December 2008: RMB36,646,000) have been pledged to banks as securities for certain bank facilities (Note 15(b)) of the Group. The remaining pledged deposits amounted to RMB8,236,000 (31 December 2008: Nil) have been pledged to a future dealer as securities for the aluminium future contracts entered into by the Group. The aggregate notional contract value of the aluminium future contracts as at 30 June 2009 is RMB40,296,000.

## 14 Cash and cash equivalents

| | **At 30 June 2009** ***RMB'000*** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Cash and cash at bank | **141,819** | 214,905 |

## 15 Loans and borrowings

### *(a) The loans and borrowings were as follows:*

| | **At 30 June 2009** **RMB'000** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Bank loans | | |
| – Secured | **234,249** | 260,329 |
| – Unsecured | **255,000** | 299,000 |
| | **489,249** | 559,329 |

### *(b) Significant terms of the loans and borrowings*

At 30 June 2009, the Group's bank facilities amounted to RMB328,618,000 (31 December 2008: RMB396,346,000) were secured by the following assets:

| | **At 30 June 2009** **RMB'000** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Carrying value of assets: | | |
| Inventories *(Note 11)* | **164,200** | 146,990 |
| Bills receivable *(Note 12)* | **28,252** | 26,346 |
| Trade debtors *(Note 12)* | **–** | 25,000 |
| Pledged deposits *(Note 13)* | **26,097** | 36,646 |
| | **218,549** | 234,982 |

The secured bank facilities amounted to RMB300,366,000 (31 December 2008: RMB290,000,000) was guaranteed by the related parties *(Note 18(a)(v))*.

The Group's bank facilities amounted to RMB493,000,000 (31 December 2008: RMB483,000,000) are unsecured and are guaranteed by the related parties *(Note 18(a)(v))*.

All the bank facilities of the Group totalling RMB821,618,000 (31 December 2008: RMB879,346,000) were utilised to the extent of RMB510,578,000 (31 December 2008: RMB594,085,000).

## 16 Trade and other payables

| | At 30 June 2009 RMB'000 | At 31 December 2008 RMB'000 |
|---|---|---|
| Trade payables | **69,897** | 93,318 |
| Bills payable | **–** | 28,807 |
| Other payables and accruals | **120,949** | 71,424 |
| Deferred income | **1,373** | 1,995 |
| | **192,219** | 195,544 |

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 period granted by various suppliers ranges from 30 days to 60 days.

| | At 30 June 2009 RMB'000 | At 31 December 2008 RMB'000 |
|---|---|---|
| Due within 1 month or on demand | **870** | 37,485 |
| Due after 1 month but within 3 months | **69,027** | 76,520 |
| Due after 3 months but within 6 months | **–** | 8,120 |
| | **69,897** | 122,125 |

## 17 Commitments

### *(a) Capital commitments*

Capital commitments outstanding at 30 June 2009 not provided for in the interim financial report were as follows:

| | **At 30 June 2009 *RMB'000*** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Contracted for | | |
| – To build a new aluminium profile production base in Chengdu City | **94,000** | – |
| – Purchase of property, plant and equipment for the production base in Sanshui District, Foshan City | **109,976** | 76,389 |
| Total | **203,976** | 76,389 |

### *(b) Operating lease commitments*

At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **At 30 June 2009 *RMB'000*** | At 31 December 2008 *RMB'000* |
|---|---|---|
| Within 1 year | **2,894** | 2,797 |
| Between one to two years | **229** | 415 |
| Total | **3,123** | 3,212 |

During the period ended 30 June 2009, the Group leased certain buildings and offices from certain related parties *(Note 18(a)(iii))* and third parties under operating leases. The leases typically run for an initial period of one year to two years, with options to renew the leases when all terms are renegotiated. None of the leases includes contingent rentals.

The lease arrangements with the related parties are cancellable upon a 3 months' notice issued by the Group. The operating lease commitments of RMB2,183,000 (2008: RMB4,355,000) represent an aggregate amount of 3 months' rental expenses.

## 18 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 six months ended 30 June 2009, 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 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 |
| Xinggao Aluminium (佛山市興高鋁業有限公司) *(i) (ii)* | Effectively owned by the Controlling Shareholders |
| Xingfa Group | Effectively owned by the Controlling Shareholders |
| Xingfa Innovation | 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) Upon the completion of acquisition of 100% equity interest of Xinggao Aluminium by the Group on 26 July 2008, Xinggao Aluminium has become the wholly-owned subsidiary of Guangdong Xingfa and is no longer a related party of the Group from that date.

***(a) Transactions***

*(i) Sales and purchase*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Sales of goods to | | |
| – Xingfa Curtain Wall | **16,200** | 10,816 |
| Purchase of raw materials from | | |
| – Leahin Coating | **3,634** | 3,969 |
| – Xingfa Curtain Wall | **916** | – |

*(ii) Rental income*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Leahin Coating | **–** | 80 |
| Xingfa Curtain Wall | **–** | 85 |

*(iii) Operating lease arrangements*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Operating lease expenses paid to | | |
| – Xingfa Group | **3,315** | 4,587 |
| – Xingfa Innovation | **1,051** | 1,480 |
| – Xinggao Aluminium | **–** | 2,643 |
| | **4,366** | 8,710 |

*(iv) Receipt on behalf of the Group*

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Xingfa Innovation | **437** | – |
| Xingfa Group | **71** | – |
| Total | **508** | – |

*(v) Financial guarantees*

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

| | **At 30 June 2009** | At 31 December 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| LUO Su, LUO Riming, and LIAO Yuqing | **453,000** | 453,000 |
| Xingfa Group, LUO Su, LUO Riming, and LIAO Yuqing | **280,366** | 260,000 |
| Xingfa Group, Foshan Xinghui, LUO Su, CHEN Hongzai, LUO Riming and LIAO Yuqing | **60,000** | 60,000 |
| | **793,366** | 773,000 |

***(b) 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 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Trade related | | |
| Xingfa Curtain Wall | **3,589** | 6,045 |
| Leahin Coating | **220** | – |
| | **3,809** | 6,045 |
| Non-trade related | | |
| Xingfa Innovation | **437** | – |
| Xingfa Group | **1,383** | 1,312 |
| | **1,820** | 1,312 |
| | **5,629** | 7,357 |

*(ii) Trade and other payables*

| | **At 30 June 2009** *RMB'000* | At 31 December 2008 *RMB'000* |
|---|---|---|
| Trade related | | |
| Leahin Coating | **–** | 3,001 |

The amounts due from/(to) related parties are unsecured, interest free and have no fixed terms of repayment. No provisions for bad and doubtful debts have been made in respect to the amounts due from related parties.

### *(c) Key management personnel compensation*

Remuneration for key management personnel is as follows:

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Short-term employee benefits | **2,133** | 1,455 |
| Contribution to retirement benefit plan | **37** | 20 |
| | **2,170** | 1,475 |

## 19 Non-adjusted post balance sheet event

On 16 July 2009, the Group entered into an investment agreement with the Management Committee of the Jiangxi Yi Chun Economic Development Zone (江西宜春經濟開發區管理委員會). Pursuant to the investment agreement, the Group will invest in the order of RMB1,000,000,000 to set up a production factory in Yi Chun City to produce aluminium profiles with an annual designed production capacity of 50,000 tonnes. A new wholly-owned subsidiary, Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd.(廣東興發鋁業(江西)有限公司), was set up in Jiangxi Yi Chun Economic Development Zone in this regard and it obtained its business licence on 14 August 2009.

## 20 Comparative figures

As a result of the application of IAS 1 (revised 2007), Presentation of financial statements, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

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 31 which comprises the consolidated balance sheet of Xingfa Aluminium Holdings Limited and its subsidiaries as of 30 June 2009 and the related consolidated income statement, statement of comprehensive income and statement of changes in equity and condensed consolidated statement of cash flow 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 2009 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

28 August 2009

# MANAGEMENT DISCUSSION AND ANALYSIS

## Review of Operations

We are one of the leading aluminium profiles manufacturers in the PRC and our products are principally applied as construction and industrial materials. Currently, we are the largest provider of electricity conductive aluminium profile for metro vehicles in the PRC. Leveraging on our advanced R&D capability and commitment to quality, our Group has established extensive and stable sales networks in the PRC and overseas for the past 20 years. Our Group was awarded as the No. 1 of the Top-Ten National Aluminium Profiles Enterprises by the China Non-Ferrous Metals Fabrication Industrial Association ("CNFA") in 2003, and such status was re-confirmed by CNFA in February 2008. During 1H09, Xingfa Aluminium won the tender for several landmark projects, including electricity conductive aluminium profile for metro locomotive of Guangzhou-Foshan train, the Shenzhen International Commerce Center and the headquarters of the Government of the Hong Kong Special Administrative Region etc.

### *Turnover*

Turnover and sales volume recorded approximately RMB771.47 million and 41,000 tonnes in 1H09 respectively (six months ended 30 June 2008 ("1H08"): RMB1,084.20 million and 46,389 tonnes). The decrease in turnover was due to the combined effect of the drop of average selling price ("ASP") and the drop of sales volume of aluminium profiles in 1H09.

The ASP of our products dropped by 21% from approximately RMB22,156 per tonne in 1H08 to RMB17,481 per tonne in 1H09. We billed our customers the processing fee with reference to the market price of aluminium ingots, the average market price of which was dropped by approximately 31% to about RMB11,080 per tonne (value-added tax excluded) in 1H09 (1H08: RMB16,080 per tonne). However, the drop of ASP was partially offset by the improvement in processing fee with an increase of 5% in 1H09.

With respect to the drop of sales volume, it was mainly attributable to the decrease in sales volume of plain aluminium profiles by approximately 31% to 11,170 tonnes in 1H09 (1H08: 16,196 tonnes), in particular for the cold storage containers. Meanwhile, the sales volume for aluminium profiles with surface finishing remained steady in 1H09. Positive policies launched by the Central Government of the PRC in the first quarter in 2009 ("1Q09") have partially offset the negative impacts brought by the financial turmoil in the fourth quarter in 2008 ("4Q08"). Our Group's sales orders started to recover in the second quarter of 2009 ("2Q09") leveled down the total sales drop in 1H09.

### *Cost of sales*

Our cost of sales decreased from approximately RMB972.21 million in 1H08 to RMB692.36 million in 1H09 which was in line with the decrease in turnover.

### *Gross profit and gross profit margin*

Gross profit margin maintained at 10.3% (1H08: 10.3%) whilst sales to production ratio was 98.0% in 1H09 (1H08: 96.4%).

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

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| Average gross profit margin | **10.3%** | 10.3% |
| – Plain aluminium profiles | **22.6%** | 11.0% |
| – Aluminium profiles with surface finishing | **5.6%** | 10.1% |

Continuous production capacity expansion in our Sanshui Factory contributed to our Group's increasing economies of scales and hence increased the gross profit margin of plain aluminium profiles to 22.6%. In addition, in 1H09, our Group has concluded more sales orders of electricity conductive aluminium profile for metro-locomotive of Guangzhou-Foshan train which has higher processing fee than other industrial materials. This relative change in product mix improved the gross profit margin of plain aluminium profile in 1H09, which has also partially offset the negative impact brought by the drop in sales volume.

Further, following the installation of the Asia-largest surface anodising machines, powder coating machines and PVDF coating machines to enhance the surface finishing capability in late 1Q09, we are expecting the gross profit margin of aluminium profiles with surface finishing will be improved in the second half of 2009 ("2H09").

### *Other net income/(loss)*

Our Group recorded other net income of RMB5.30 million in 1H09 as compared to other net loss of RMB1.80 million in 1H08. This variance was mainly due to the net gains of derivate financial instruments of RMB4.12 million in 1H09 as compared to the net losses derivate financial instruments of RMB1.97 million in 1H08.

### *Distribution expenses*

Our distribution expenses was reduced by 37% to RMB12.72 million (1H08: RMB20.09 million) whilst our distribution expenses as a percentage of turnover was reduced to 1.65% in 1H09 (1H08: 1.85%). Such decrease was in line with the decrease in turnover in 1H09, particularly attributable to the decrease in agency fees, advertising expenses and transportation expenses etc.

### *Administrative expenses*

Our administrative expenses recorded RMB23.60 million in 1H09 which was approximately 21% lower than that in 1H08. Such decrease was mainly due to the absence of an one-off IPO related professional fees of RMB9.61 million incurred in 1H08.

### *Profit from operations*

As a result of the above-mentioned factors, the profit from operations was reduced by 20% from RMB60.29 million to RMB48.09 million in 1H08 and 1H09 respectively.

### *Net finance costs*

Net finance costs were reduced by approximately 47% to RMB10.41 million in 1H09 as compared to RMB19.63 million in 1H08 as a result of the drop of average borrowing amount and the drop of interest rate.

### *Income tax expense*

Our Group is not subject to any income tax in the Caymans Islands and the BVIs. Hong Kong profits tax has been provided at the rate of 16.5% (1H08: 16.5%) on the estimated assessable profit for the period.

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. The prevailing tax rate of Guangdong Xingfa in 2009 is 25% (1H08: 25%), but Guangdong Xingfa can continue to enjoy the existing preferential tax treatment until the end of above mentioned tax holidays. The income tax rate applicable to Guangdong Xingfa was 12.5% in 1H09 (1H08: 12.5%). 2008 and 2009 are the entity's third and fourth profit making year respectively.

Foshan Xinggao Aluminium Co., Ltd. ("Xinggao Aluminium") 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 25% for the six months ended 30 June 2009 (1H08: 25%).

Further under 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 held by a Hong Kong 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. After the distribution dividends amounting to RMB20,900,000 approved and paid during the period ended 30 June 2009, the remaining undistribution pre-2008 profits of Guangdong Xingfa, which amounted to RMB155,153,000, are not subject to the 5% withholding tax in future distributions.

The Group is liable to withholding tax on dividends distributed from Guangdong Xingfa of its profits generated on or after 1 January 2008. At 30 June 2009, temporary differences relating to the undistributed profits of Guangdong Xingfa amounted to RMB88,678,000 (2008: RMB47,313,000). Deferred tax liabilities of RMB4,434,000 (2008: RMB2,366,000) 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.

***Profit for the period and the net profit margin***

In 1H09, our Group recorded profit for the period of approximately RMB33.51 million (1H08: approximately RMB33.67 million) while the net profit margin was further improved to 4.3% in 1H09 (1H08: 3.1%). The improvement in net profit margin was mainly attributable to the net gains of holding aluminium future contracts, decrease in distribution and administrative expenses and saving in net finance costs in 1H09.

## Analysis of Financial Position

### *Current and quick ratios*

The following table sets out the summary of our Group's current and quick ratios as at 30 June 2009 and 31 December 2008:

| | **As at 30 June 2009** | As at 31 December 2008 |
|---|---|---|
| Current ratio *(Note 1)* | **1.19** | 1.21 |
| Quick ratio *(Note 2)* | **0.88** | 0.95 |

*Notes:*

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

2. 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/year.

Both current ratio and quick ratio of our Group had remained relatively steady in 1H09.

### *Gearing ratio*

The following table sets out the summary of our Group's gearing ratio as at 30 June 2009 and 31 December 2008:

| | **As at 30 June 2009** | As at 31 December 2008 |
|---|---|---|
| Gearing ratio *(Note)* | **35.9%** | 39.4% |

*Note:* Gearing ratio is calculated based on the loans and borrowings divided by total assets at the end of the period/year and multiplied by 100%.

Gearing ratio of our Group was reduced to 35.9% as at 30 June 2009 due to the repayment of short-term bank loans.

### *Inventory turnover days*

The following table sets out the summary of our Group's inventory turnover days during the two periods ended 30 June 2008 and 2009:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| Inventory turnover days *(Note)* | **54** | 52 |

*Note:* Inventory turnover days is calculated based on the average of the beginning and ending inventory balance before provision for the periods divided by the total cost of sales during the periods multiplied by 181 days.

Inventories balance as at the respective period end for the two periods ended 30 June 2008 and 2009 represents our raw materials, work in progress and unsold finished goods.

Our inventory turnover days had remained steady in 1H09.

### *Debtors' turnover days*

The following table sets out the summary of our Group's debtors turnover days during the two periods ended 30 June 2008 and 2009:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2009** | 2008 |
| Debtors' turnover Days *(Note)* | **90** | 70 |

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

Our debtors' turnover days deteriorated to 90 days in 1H09 due to the fact that more sales orders were concluded in June 2009 as a result of the market recovery.

### *Creditors' turnover days*

The following table sets out the summary of our Group's creditors turnover days during the two periods ended 30 June 2008 and 2009:

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| Creditors' turnover Days *(Note)* | **25** | 42 |

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

In 1H09, our creditors' turnover days reduced to 25 days since we have settled all outstanding bills payable as at 30 June 2009.

### *Cash flow*

The table below summarises our Group's cash flow during the two periods ended 30 June 2008 and 2009:

| | For the six months ended 30 June | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'million*** | *RMB'million* |
| Net cash generated from operating activities | **63.00** | 70.07 |
| Net cash used in investing activities | **(31.93)** | (121.14) |
| Net cash (used in)/generated from financing activities | **(104.30)** | 245.72 |

We generally finance our operations through a combination of shareholders' equity, internally generated cash flows, bank borrowings and our cash and cash equivalents. Our Directors believe that on a long-term basis, our liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

### *Capital expenditure*

Capital expenditure was used for acquisition of property, plant and equipment. In 1H09, our Group's capital expenditure was approximately RMB58.20 million. The significant capital expenditure during 1H09 was mainly for acquisition of plant and equipment for our Sanshui Factory.

### *Loans and borrowings*

As at 30 June 2009, our Group's loans and borrowings amounted to approximately RMB489.25 million (31 December 2008: approximately RMB559.33 million). The borrowings were mainly in Renminbi with maturity profile of not more than 12 months.

### *Guarantee*

Certain bank facilities amounted to RMB793.37 million (31 December 2008: RMB773.00 million) were guaranteed by certain related parties, such bank facilities were utilised to the extent of RMB482.33 million (31 December 2008: RMB511.09 million).

### *Contingent liabilities*

At 30 June 2009, there were no material contingent liabilities.

### *Pledge of assets*

Certain assets of the Group have been pledged to secure the bank borrowings of our Group. For details, please to notes 13 and 15 to the notes to the unaudited interim financial report.

### *Financial risk management*

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

- **market risk**
- **credit risk**
- **liquidity risk**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group' activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

*(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 70% 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 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 are 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 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 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.

The maximum exposure of credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheets, including derivative financial instruments.

(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 2009, our Group employed a total of 2,509 full time employees which included management staff, technicians, salespersons and workers. In 1H09, our Group's total expenses on the remuneration of employees was approximately RMB27.33 million and represents approximately 3.5% of the turnover of our Group. Our Group's emolument policies are formulated based 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 the 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.

### *Significant investment held, material acquisition and disposal of subsidiaries and associated companies*

On 15 May 2009, our Group has entered into an investment agreement ("Investment Agreement") with 西南航空港經濟開發區管理委員會 (The Management Committee of the South West Airport Economic Development Zone) ("Management Committee") to promote the development of the South West Airport Economic Development Zone in Shuang Liu County, Chengdu City, Sichuan Province, the PRC ("SW Airport Economic Development Zone"). Pursuant to the Investment Agreement, our Group will establish a new wholly-owned subsidiary in the SW Airport Economic Development Zone to engage in the production of aluminium profiles. The proposed registered capital of the new subsidiary will be not less than RMB100 million, which will be injected in two phases. The first phase of the capital injection will be not less than RMB50 million. Please refer to the announcement of the Company dated 15 May 2009 for further details.

Save as disclosed above, there was no other significant investment held, material acquisition and disposal of subsidiaries and associated company during 1H09.

## PROSPECTS

With our continuous development in our Sanshui Factory, further enhancement of our economies of scales and gross profit margin are expected to be seen in the near future. In the meantime, following the installation of the Asia-largest surface anodising machines, powder coating machines and PVDF coating machines to enhance the surface finishing capability, coupled with the establishment of seven new extrusion production lines, our Group is ready to capture the expected uprising demand in 2H09.

Apart from our new Sanshui Factory, we will continue to carry out our production capacity expansion plan in other parts of the PRC. With the two new production bases in Chengdu City of Sichuan Province and Yichun City of Jiangxi Province commenced their first phase development, it is expected that an annual production capacity of 50,000 tonnes of aluminium profiles of each plant are to be added to our Group by the end of 2010.

Looking forward, our Group will strive to capture the market opportunities throughout the PRC. Capacity growth ahead will be carefully and prudently blueprinted in line with the market trend, with the ultimate goal to expand the designed annual production capacity of each of the two new bases to 100,000 tonnes and to extend the market coverage to South-West and South-East China. Together with the production capacity expansion in our Sanshui Factory, the total capacity of aluminium profiles of our Group is planned to be reaching 300,000 tonnes by 2014.

## OTHER INFORMATION

### 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 2009.

### Share Option Scheme

The Company adopted a share option scheme ("**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 2009, 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 first commenced 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 29 February 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.

**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 six months ended 30 June 2009.

**Pre-Emptive Rights**

There are no provision for pre-emptive rights under the Company's articles 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.

**Purchase, Sale or Redemption 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 six months ended 30 June 2009.

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

As at 30 June 2009, 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 2009 |
|---|---|---|---|---|
| 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% |
| Company | LAW Yung Koon | Beneficial owner | 4,420,000 ordinary Shares *(L)* | 1.06% |
| | | Interest of spouse | 1,719,000 ordinary Shares *(L)* | 0.41% |

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

Save as disclosed above, as at 30 June 2009, 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 2009, no other person 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 ("**CG Code**") as contained in the Listing Rules 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 2009, the Company has fully complied with the applicable code provisions of the CG Code.

## Model Code for Securities Transactions by Directors

On 29 February 2008, our Company adopted the Model Code (in force prior to 1 January 2009) as its own code of conduct for securities transactions ("**Old Code**"). With effect from 1 April 2009, the Company has adopted a new set of codes for securities transactions on terms no less exacting than those set out in the Model Code (in force on 1 April 2009) as its own code of conduct for securities transactions ("**New Code**"). Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standards set out in the Old Code for the period from 1 January 2009 to 31 March 2009 and the New Code for the period from 1 April 2009 to 30 June 2009.

## Audit Committee

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company has an audit committee which is accountable to the Board and the primary duties of the audit committee include the review and supervision of our Group's financial reporting process and internal control measures. The audit committee is composed of three independent non-executive directors of the Company, Mr. CHEN Mo, Mr. HO Kwan Yiu and Mr. LAM Ying Hung Andy. Mr. Lam serves as the chairman of the audit Committee of our Company. The chairman of the audit committee has professional qualification and experience in financial matters.

The audit committee of our Company has met with the external auditors of our Company, KPMG, to review the interim financial statements of our Group for the six months period ended 30 June 2009.

By order of the Board
**Xingfa Aluminium Holdings Limited**
**LUO Su**
*Chairman*

Hong Kong, 28 August 2009