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)

INTERIM REPORT 2010

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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

Non-executive Director

WONG Siu Ki

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

TANG Yuen Wa

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 & 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

INVESTOR RELATIONS

Strategic Financial Relations (China) Limited

WEBSITE

www.xingfa.com

STOCK CODE

00098.HK

INTRODUCTION

The board of directors (the "**Directors**" or the "**Board**") of Xingfa Aluminium Holdings Limited (the "**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 2010 ("**1H10**"), together with the comparative figures for the corresponding period in 2009 ("**1H09**") 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 2010 – unaudited
(Expressed in Renminbi)

		For the six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Turnover	*3&4*	**1,033,943**	771,466
Cost of sales		**(907,138)**	(692,360)
Gross profit		**126,805**	79,106
Other revenue	*5*	**4,713**	2,558
Other net (loss)/income	*5*	**(8,275)**	4,573
Distribution costs		**(16,723)**	(12,721)
Administrative expenses		**(39,418)**	(23,597)
Profit from operation		**67,102**	49,919
Finance costs	*6(a)*	**(18,516)**	(12,235)
Profit before taxation	*6*	**48,586**	37,684
Income tax expenses	*7*	**(6,157)**	(4,176)
Profit for the period attributable to equity shareholders of the Company		**42,429**	33,508
Basic and diluted earnings per share *(RMB yuan)*	*9*	**0.10**	0.08

The notes on pages 11 to 32 form part of this interim financial report.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2010 – unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Profit for the period	**42,429**	33,508
Other comprehensive income for the period		
Exchange differences on translation of financial statements of operations outside the People's Republic of China (the "PRC")	**(226)**	143
Total comprehensive income for the period attributable to equity shareholders of the Company	**42,203**	33,651

The notes on pages 11 to 32 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

at 30 June 2010 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2010 RMB'000**	At 31 December 2009 RMB'000
Non-current assets			
Property, plant and equipment	10	**830,994**	531,824
Lease prepayments		**292,037**	295,753
Deposits for land use right	11	**25,190**	–
Deferred tax assets		**18,088**	16,075
		1,166,309	843,652
Current assets			
Inventories	12	**328,527**	244,210
Derivative financial instruments		**–**	879
Trade and other receivables	13	**545,175**	581,916
Pledged deposits	14	**87,632**	89,552
Cash and cash equivalents	15	**271,438**	279,836
		1,232,772	1,196,393
Current liabilities			
Trade and other payables	16	**307,623**	326,133
Loans and borrowings	17	**701,164**	697,443
Obligations under finance leases	18	**22,813**	22,321
Derivative financial instruments		**3,890**	83
Current tax payables		**20,963**	19,264
		1,056,453	1,065,244
Net current assets		**176,319**	131,149
Total assets less current liabilities		**1,342,628**	974,801

	Note	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Non-current liabilities			
Loans and borrowings	17	**500,000**	150,000
Obligations under finance leases	18	**36,148**	47,679
Deferred income	19	**60,283**	60,908
		596,431	258,587
Net assets		**746,197**	716,214
Capital and reserves			
Share capital		**3,731**	3,731
Reserves		**742,466**	712,483
Total equity		**746,197**	716,214

The notes on pages 11 to 32 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2010 – unaudited
(Expressed in Renminbi)

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Other reserve RMB'000	PRC statutory reserves RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
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 and 1 July 2009	3,731	196,160	–	209,822	53,847	(449)	213,402	676,513
Changes in equity for the six months ended 31 December 2009								
Waiver of liabilities from equity shareholders	–	–	3,054	–	–	–	–	3,054
Total comprehensive income for the period	–	–	–	–	–	(53)	36,700	36,647
Transfer from retained earnings	–	–	–	–	9,930	–	(9,930)	–
Balance at 31 December 2009	3,731	196,160	3,054	209,822	63,777	(502)	240,172	716,214
Balance at 1 January 2010	3,731	196,160	3,054	209,822	63,777	(502)	240,172	716,214
Changes in equity for the six months ended 30 June 2010								
Waiver of liabilities from equity shareholders	–	–	1,574	–	–	–	–	1,574
Dividends approved in respect of the previous year	–	–	–	–	–	–	(13,794)	(13,794)
Total comprehensive income for the period	–	–	–	–	–	(226)	42,429	42,203
Balance at 30 June 2010	**3,731**	**196,160**	**4,628**	**209,822**	**63,777**	**(728)**	**268,807**	**746,197**

The notes on pages 11 to 32 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2010 – unaudited
(Expressed in Renminbi)

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Cash generated from operations	**15,027**	63,940
Income tax paid	**(6,472)**	(941)
Net cash generated from operating activities	**8,555**	62,999
Net cash used in investing activities	**(318,108)**	(31,931)
Net cash generated from/(used in) financing activities	**301,178**	(104,297)
Net decrease in cash and cash equivalents	**(8,375)**	(73,229)
Cash and cash equivalents at 1 January	**279,836**	214,905
Effect of foreign exchange rate changes	**(23)**	143
Cash and cash equivalents at 30 June	**271,438**	141,819

The notes on pages 11 to 32 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi)

1 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 ("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 31 August 2010.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 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 2009 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 the Audit Committee of the Company. It has also 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 pages 33 to 34.

The financial information relating to the financial year ended 31 December 2009 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 2009 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 31 March 2010.

2 Changes in accounting policies

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's interim financial report:

- IFRS 3 (revised 2008), Business combinations
- Amendments to IAS 27, Consolidated and separate financial statements
- Amendments to IFRS 5, Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary
- Amendments to IAS 39, Financial instruments: Recognition and measurement – eligible hedged items
- Improvements to IFRSs (2009)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendments to IAS 39 have had no material impact on the Group's interim financial report as the amendments were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IFRS 5 and IAS 27 have not yet had a material effect on the Group's interim financial report as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- As a result of the amendment to IAS 17, Leases, arising from the "Improvements to IFRSs (2009)" omnibus standard, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that the classification of such leases as operating leases continue to be appropriate and the amendment to IAS 17 has had no material impact on the Group's interim financial report.

- The Group has early adopted an amendment in the "Improvements to IFRSs (2009)" which amended IFRS 8, Operating segments, 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 Group's interim financial reports of the six months ended 30 June 2009 and 2010 respectively.

Further details of these changes in accounting policies are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:

  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

– Contingent consideration will be measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration will be recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they will be recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

– If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

– In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies has been applied as from 1 January 2010:

  – If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions.

  – If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest.

  In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore there has had no impact on the Group's interim financial report in previous periods.

3 Operating segments

The Group manages its businesses by product lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purpose of resource allocation and performance assessment, the Group has identified the following two reportable segments.

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

- Construction aluminium profiles: this segment manufactures and sells construction aluminium profiles with surface finishing, including anodic oxidation aluminium profiles, electrophoresis coating aluminium profiles, powder coating aluminium profiles and PVDF coating aluminium profiles. Construction aluminium profiles 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 period ended 30 June 2010 and 2009 respectively are set out below.

	Industrial aluminium profiles		Construction aluminium profiles		All other segments		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue								
Revenue from external customers	**222,706**	182,675	**737,446**	534,447	**73,791**	54,344	**1,033,943**	771,466
Reportable segment profit								
Gross profit	**41,885**	41,256	**76,605**	30,093	**8,315**	7,757	**126,805**	79,106

(b) Reconciliations of reportable segment profit

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Reportable segment profit derived from the Group's external customers	**126,805**	79,106
Other revenue	**4,713**	2,558
Other net (loss)/income	**(8,275)**	4,573
Distribution costs	**(16,723)**	(12,721)
Administrative expenses	**(39,418)**	(23,597)
Finance costs	**(18,516)**	(12,235)
Consolidated profit before taxation	**48,586**	37,684

4 Seasonality of operations

The Group's operation on average experiences 30% lower sales in the first quarter, compared to other quarters in the year, due to the decreased demand for its products during the Chinese New Year holidays.

5 Other revenue and other net (loss)/income

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Other revenue		
Interest income	**1,886**	1,592
Government grants	**2,821**	961
Rental income	**6**	5
	4,713	2,558
Other net (loss)/income		
Net realised and unrealised (losses)/gains on derivative financial instruments		
– aluminium future contracts	**(8,490)**	3,515
– forward foreign exchange contracts	**12**	606
Foreign exchange gains	**349**	238
Others	**(146)**	214
	(8,275)	4,573

6 Profit before taxation

(a) Finance costs

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Interest expenses on bank loans wholly repayable within five years	**25,995**	12,711
Finance charges on obligations under finance lease	**1,474**	–
Less: interest expenses capitalised into construction in progress	**(8,953)**	(476)
	18,516	12,235

(b) Other items

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Depreciation	**24,771**	16,959
Amortisation of lease prepayments	**3,798**	1,542
Research and development costs	**473**	1,080
Write down of inventories *(note 12)*	**1,342**	439
Impairment loss on trade and other receivables *(note 13)*	**114**	373
Operating lease charges	**2,130**	4,800

7 Income tax expenses

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Current tax		
Provision for PRC income tax	**7,668**	2,953
Provision for Hong Kong Profits Tax	**503**	676
	8,171	3,629
Deferred tax		
Origination and reversal of temporary differences	**(2,014)**	547
	6,157	4,176

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

(b) The provision for Hong Kong Profits Tax for the six months ended 30 June 2010 is calculated by applying the estimated annual effective tax rate of 16.5% (2009: 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 2010 is 25% (2009: 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 2010 (2009: 12.5%). 2009 and 2010 are the entity's fourth and fifth profit making year respectively.

- Xingfa Aluminium (Chengdu) Co., Ltd. ("Xingfa Chengdu"), Guangdong Xingfa Aluminium (Jiangxi) Co., Ltd. ("Xingfa Jiangxi") and Guangdong Xingfa Aluminium (Henan) Co., Ltd. ("Xingfa Henan") are limited liability companies established under the laws of the PRC and are wholly-owned subsidiaries of Guangdong Xingfa. They are liable to the PRC enterprise income tax at a rate of 25% for the six months ended 30 June 2010 (2009: 25%).

(d) In addition, pursuant to the Implementation Rules of the Corporate Income Tax Law of the PRC which started to take effect on 1 January 2008 and the Sino-Hong Kong Double Tax Arrangements, the gross amount of dividends received by Hong Kong company from its PRC subsidiaries in respect of their profits generated after 1 January 2008 is subject to withholding tax at a rate of 5%. Under the grandfathering treatments, the undistributed profits of the PRC subsidiaries as at 31 December 2007 are exempted from withholding tax.

As at 30 June 2010, the remaining undistributed pre-2008 profits of Guangdong Xingfa, which amounted to RMB105,153,000, 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 2010, post 1 January 2008 undistributed profits amounted to RMB140,926,000 (2009: RMB88,678,000). Deferred tax liabilities of RMB7,046,000 (2009: RMB4,434,000) 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 2010 (2009: 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	
	2010	2009
	RMB'000	*RMB'000*
Final dividends in respect of the previous financial year, approved and paid during the interim period, of RMB0.033 per share (2009: RMB0.05 (final and special dividends))	**13,794**	20,900

9 Earnings per share

The calculation of basic earnings per share during the six months ended 30 June 2010 was based on the profit attributable to equity shareholders of the Company of RMB42,429,000 (six months ended 30 June 2009: RMB33,508,000) and 418,000,000 shares (2009: 418,000,000 shares) in issue during the six months ended 30 June 2010.

There were no dilutive potential ordinary shares in issue for the six months ended 30 June 2009 and 2010 respectively, 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 2010, the Group acquired items of plant and machinery with a cost of RMB323,945,000 (six months ended 30 June 2009: RMB58,196,000).

11 Deposits for land use right

As at 30 June 2010, the Group made a deposit of RMB25,190,000 (31 December 2009: nil) for an acquisition of land use right located in Chancheng District of Foshan City. The total consideration of the land use right is RMB50,380,000.

12 Inventories

During the six months ended 30 June 2010, the Group recognised a reduction in the amount of inventories of RMB1,342,000 (six months ended 30 June 2009: RMB439,000), being the amount of a write-down of inventories to net realisable value.

13 Trade and other receivables

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 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Current	**504,619**	460,365
1 to 3 month past due	**198**	–
More than 3 months but less than 12 months past due	**104**	488
Trade debtors and bills receivable, net of allowance for doubtful debts	**504,921**	460,853
Other receivables, prepayments and deposits	**40,254**	121,063
	545,175	581,916

Certain bills receivable with an aggregate carrying value of RMB34,895,000 were pledged as securities for banking facilities of the Group as at 30 June 2010 (31 December 2009: RMB88,540,000) *(note 17(b))*.

At 30 June 2010, the Group's trade debtor of RMB1,253,000 (31 December 2009: RMB373,000) was individually determined to be impaired. The individually impaired receivable related to two customers that were in financial difficulties and management assessed that the receivables are expected not to be recovered. Consequently, a specific allowance for doubtful debt of RMB114,000 (six months ended 30 June 2009: RMB373,000) was recognised.

14 Pledged deposits

At 30 June 2010, pledged deposits amounted to RMB56,456,000 (31 December 2009: RMB47,085,000) have been pledged to banks as securities for certain banking facilities *(Note 17(b))* of the Group. The remaining pledged deposits amounted to RMB31,176,000 (31 December 2009: RMB42,467,000) 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 2010 is RMB65,870,000 (31 December 2009: RMB11,282,000).

15 Cash and cash equivalents

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
Cash and cash at bank	**271,438**	279,836

16 Trade and other payables

Included in trade and other payables are trade creditors 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 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Due within 1 month or on demand	**30,492**	40,188
Due after 1 month but within 3 months	**142,112**	113,468
Due after 3 months but within 6 months	**–**	36,000
Trade creditors and bills payable	**172,604**	189,656
Other payables and accruals	**132,097**	133,265
Deferred income	**2,922**	3,212
	307,623	326,133

17 Loans and borrowings

(a) Loans and borrowings were repayable as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Within one year	**701,164**	697,443
After 2 years but within 5 years	**500,000**	150,000
	1,201,164	847,443

(b) Terms

	At 30 June 2010 ***RMB'000***	At 31 December 2009 *RMB'000*
Secured bank loans	**769,820**	425,813
Unsecured bank loans	**431,344**	421,630
	1,201,164	847,443

At 30 June 2010, the Group's banking facilities amounted to RMB954,895,000 (31 December 2009: RMB678,540,000) were secured by the following assets:

	At 30 June 2010 ***RMB'000***	At 31 December 2009 *RMB'000*
Carrying value of assets:		
Property, plant and equipment	**25,688**	21,774
Lease prepayments	**291,955**	150,870
Bills receivable *(Note 13)*	**34,895**	88,540
Pledged deposits *(Note 14)*	**56,456**	47,085
	408,994	308,269

The Group's unsecured banking facilities amounted to RMB262,000,000 (31 December 2009: RMB328,000,000) were guaranteed by the related parties.

Banking facilities of the Group totalling RMB1,389,238,000 (31 December 2009: RMB1,267,222,000) were utilised to the extent of RMB1,201,164,000 (31 December 2009: RMB1,022,640,000).

18 Obligations under finance leases

The Group had obligations under finance leases repayable as follows:

	At 30 June 2010		At 31 December 2009	
	Present value of the minimum lease payments *RMB'000*	**Total minimum lease payments** *RMB'000*	Present value of the minimum lease payments *RMB'000*	Total minimum lease payments *RMB'000*
Within one year	**22,813**	**25,025**	22,321	25,025
After 1 years but within 2 years	**23,828**	**25,025**	23,315	25,025
After 2 years but within 5 years	**12,320**	**12,522**	24,364	25,035
	36,148	**37,547**	47,679	50,060
	58,961	**62,572**	70,000	75,085
Less: total future interest expenses		**(3,611)**		(5,085)
Present value of lease obligations		**58,961**		70,000

19 Deferred income

The Group had received a government grant in connection with an acquisition of a land use right for the new production plant in Jiangxi Province of the PRC. The subsidy is granted to the Group as development fund of the investment project by local municipal government.

This government grant is recorded as deferred income and is to be recognised as income on a straight-line basis over the expected useful live of related land use right.

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
Total deferred income	**61,532**	62,157
Less: current portion included in trade and other payables	**(1,249)**	(1,249)
	60,283	60,908

20 Capital reserves

On 30 June 2009, Xingfa Group and Xingfa Innovation had agreed to waive their remaining receivables due from the Group in connection with the operating lease of land use rights and plants respectively. The total waiver of liabilities amounting to RMB1,574,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil) by Xingfa Group and Xingfa Innovation was regarded as equity transactions and recorded in capital reserve account.

21 Commitments

(a) Capital commitments

Capital commitments outstanding at 30 June 2010 not provided for in the interim financial report were as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Contracted for		
– Building a new aluminium profile production base in Chengdu City	**57,722**	125,702
– Building a new aluminium profile production base in Yichun City	**93,470**	111,148
– Building a new aluminium profile production base in Qinyang City	**1,332**	–
– Purchase of property, plant and equipment for the production base in Sanshui District, Foshan City	**78,060**	106,548
	230,584	343,398
Authorised but not contracted for	**1,199,168**	741,480
	1,429,752	1,084,878

(b) Operating lease commitments

At 30 June 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2010 *RMB'000*	At 31 December 2009 *RMB'000*
Within 1 year	**258**	581

22 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 2010, 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
Guangdong Xingfa Curtain Wall, Door & Window Co., Ltd. ("Xingfa Curtain Wall") (廣東興發幕牆門窗有限公司) *(i)*	Effectively owned by the Controlling Shareholders
Xingfa Group	Effectively owned by the Controlling Shareholders
Xingfa Innovation	Effectively owned by the Controlling Shareholders

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

(a) Transactions

(i) Sales and purchase

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Sales of goods to		
– Xingfa Curtain Wall	**18,530**	16,200
Purchase of raw materials from		
– Leahin Coating	**8,026**	3,634
– Xingfa Curtain Wall	**9,037**	916
	17,063	4,550

(ii) Operating lease arrangements

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Operating lease expenses charged by		
– Xingfa Group	**996**	3,315
– Xingfa Innovation	**578**	1,051
	1,574	4,366

(iii) Receipt on behalf of the Group

	For the six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Xingfa Innovation	**150**	437
Xingfa Group	**2,468**	71
Total	**2,618**	508

(iv) Financial guarantees

Certain banking facilities utilised by the Group were guaranteed by the following related parties as at the balance sheet date.

	At 30 June 2010	At 31 December 2009
	RMB'000	*RMB'000*
LUO Su, LUO Riming, and LIAO Yuqing	**173,000**	30,000
Xingfa Group, LUO Su, LUO Riming, and LIAO Yuqing	**89,000**	238,800
	262,000	268,800

(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 2010 ***RMB'000***	At 31 December 2009 *RMB'000*
Trade related		
Xingfa Curtain Wall	**8,844**	4,840
	8,844	4,840
Non-trade related		
Xingfa Innovation	**–**	350
Xingfa Group	**–**	4,718
	–	5,068
	8,844	9,908

(ii) Trade and other payables

	At 30 June 2010 ***RMB'000***	At 31 December 2009 *RMB'000*
Trade related		
Leahin Coating	**2,643**	2,286

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

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 32 which comprises the consolidated balance sheet of Xingfa Aluminium Holdings Limited as of 30 June 2010 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 2010 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

31 August 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

Xingfa Aluminium is one of the leading aluminium profiles manufacturers in the PRC and principally engaged in the manufacture and sale of aluminium profiles which are 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 over the past 20 years. Xingfa Aluminium 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.

Turnover

Turnover and sales volume recorded approximately RMB1,033.9 million and 47,500 tonnes respectively for the six months ended 30 June 2010 (1H09: RMB771.5 million and 41,000 tonnes respectively). The rise in turnover was mainly attributable to the following factors:

1. Increase in sales volume which was in line with the production capacity expansion at Guangdong Sanshui plant in 1H10.

2. Increase in average selling price which was due to the increase in average aluminium ingot price in 1H10 by 23% to RMB13,662 per tonne (value-added tax excluded) (1H09: RMB11,080 per tonne).

3. Increase in average processing fee by 2%.

During the period under review, sales volume for construction aluminium profiles increased by 20% to 35,700 tonnes (1H09: 29,800 tonnes). Riding on the expansion of surface finishing capacity, more sales orders were concluded for powder coating and PVDF coating aluminium profiles in 1H10. On the other hand, sales for industrial aluminium profiles also achieved a steady growth of 5% to 11,800 tonnes in 1H10 (1H09: 11,200 tonnes).

Our Group is glad to see that, after commencement of the full-scale production of seven additional extrusion production lines and one additional Italy imported powder coating production line in late 4Q09, the total designed production capacity at Guangdong Sanshui plant is reaching approximately 143,000 tonnes per annum. With the expanded production capacity, our Group was able to tap the increasing customers' demand for our products.

Cost of sales

Cost of sales increased from RMB692.4 million in 1H09 to RMB907.1 million in 1H10 which was in line with the increase in turnover.

Gross profit and gross profit margin

Gross profit margin improved to 12.3% (1H09: 10.3%) whilst sales to production ratio stood at 98.2% in 1H10 (1H09: 98.0%).

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

	For the six months ended 30 June	
	2010	2009
Average gross profit margin	**12.3%**	10.3%
– Industrial aluminium profiles	**18.8%**	22.6%
– Construction aluminium profiles	**10.4%**	5.6%

Brought by the improvement in economies of scale after the expansion of production capacity at Guangdong Sanshui plant, the overall gross profit margin of the Group improved to 12.3%. In particular, with the installation of seven new surface finishing production lines, the gross profit margin of the construction aluminium profiles surged to 10.4% in 1H10 (1H09: 5.6%). On the contrary, fewer orders for electricity conductive aluminium profiles for metro-locomotive were concluded in 1H10, which led to the slight drop in gross profit margin of industrial aluminium profiles. These slightly change of product mix caused the improvement of the overall gross profit margin in 1H10.

Other revenue and other net (losses)/income

Our Group recorded other net losses of approximately RMB3.6 million in 1H10 as compared to other net income of approximately RMB7.1 million in 1H09. This variance was mainly due to the net unrealised losses of aluminium future contracts of approximately RMB8.5 million in 1H10 as compared to the net unrealised gains of aluminium future contracts of approximately RMB3.5 million in 1H09.

Distribution costs

Distribution expenses increased by approximately 31% to approximately RMB16.7 million in 1H10 (1H09: RMB12.7 million), whilst our distribution expenses as a percentage of turnover remained steady at 1.6% (1H09: 1.6%).

Administrative expenses

Administrative expenses recorded approximately RMB39.4 million in 1H10, which was approximately 67% higher than that in 1H09 (1H09: RMB23.6 million) and our administrative expenses as a percentage of turnover increased to 3.8% (1H09: 3.1%). Such increase was mainly attributable to the increase in pre-operating expenses of approximately RMB6.4 million (1H09: nil) for the new plants at Jiangxi Yichun, Sichuan Chengdu and Henan Qinyang in 1H10 and the increase in provision for inventory obsolescence of approximately RMB1.3 million in 1H10.

Finance costs

Finance costs increased by approximately 51% to approximately RMB18.5 million (1H09: RMB12.2 million) mainly due to the increase in average loans and borrowings in 1H10 to finance the capital expenditures incurred for the three new plants.

Profit for the period and the net profit margin

In 1H10, our Group recorded profit for the period of approximately RMB42.4 million (1H09: RMB33.5 million) while the net profit margin stood at 4.1% (1H09: 4.3%). The improvement in net profit for the period is mainly attributable to the improved gross profit margin but partially offset by the unrealised losses of aluminium future contracts in 1H10.

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 2010 and 31 December 2009:

	As at 30 June 2010	As at 31 December 2009
Current ratio *(Note)*	**1.17**	1.12
Quick ratio *(Note)*	**0.86**	0.89

Note:

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

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 and quick ratio remained steady in 1H10 as compared to that at 31 December 2009.

Gearing ratio

The following table sets out our Group's gearing ratio as at 30 June 2010 and 31 December 2009:

	As at 30 June 2010	As at 31 December 2009
Gearing ratio *(Note)*	**52.5%**	45.0%

Note:

Gearing ratio is calculated based on the loans and borrowings and obligations under finance leases divided by total assets and multiplied by 100%.

Gearing ratio increased to 52.5% since our Group has assumed more loans and borrowings to finance the capital expenditures for our three new plants at Jiangxi Yichun, Sichuan Chengdu and Henan Qinyang.

Inventory turnover days

The following table sets out our Group's inventory turnover days during the two periods ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
Inventory turnover days *(Note)*	**57**	54

Notes:

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 periods end during the two periods ended 30 June 2010 and 2009 represents our raw materials, work in progress and the unsold finished goods.

Inventory turnover days remained steady in 1H10.

Debtors' turnover days

The following table sets out our Group's debtors' turnover days during the two periods ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
Debtors' turnover days *(Note)*	**85**	90

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.

Debtors' turnover days improved slightly to 85 days in 1H10.

Creditors' turnover days

The following table sets out our Group's creditors' turnover days during the two periods ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
Creditors' turnover days *(Note)*	**36**	25

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, a comparatively low balance of trade and bills payable stood at 30 June 2009 led to shorter creditors' turnover days. In 1H10, creditors' turnover days remained at a normal and healthy level.

Cash flow

The table below summarises our Group's cash flow during the two periods ended 30 June 2010 and 2009:

	For the six months ended 30 June	
	2010	2009
	RMB'million	*RMB'million*
Net cash generated from operating activities	**8.6**	63.0
Net cash used in investing activities	**(318.1)**	(31.9)
Net cash generated from/(used in) financing activities	**301.2**	(104.3)

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 expenditures

Capital expenditure was used for acquisition of property, plant and equipment and lease prepayment. During the six months ended 30 June 2010, our Group's capital expenditures were approximately RMB296 million. The significant capital expenditures during the period were mainly for the acquisition of plant and equipment for the Guangdong Sanshui factory and the two new plants at Sichuan Chengdu and Jiangxi Yichun.

Loans and borrowings

As at 30 June 2010, our Group's loans and borrowings amounted to approximately RMB1,201.2 million (31 December 2009: RMB847.4 million).

Banking facilities and guarantee

As at 30 June 2010, the banking facilities of our Group amounted to approximately RMB 1,389.2 million (31 December 2009: RMB1,267.2 million), of which approximately RMB1,201.2 million were utilised (31 December 2009: RMB1,022.6 million).

Certain banking facilities amounted to RMB262 million (31 December 2009: RMB328 million) were guaranteed by certain related parties of the Group.

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 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's 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 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 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 2010, our Group employed a total of approximately 3,200 full time employees in the PRC which included management staff, technicians, salespersons and workers. In 1H10, our Group's total expenses on the remuneration of employees was approximately RMB41.2 million and represents approximately 4% 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 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

During 1H10, our Group has entered into a land grant contract with 沁陽市國土資源局 (unofficial English translation as Qinyang City Bureau of State-owned Land Resources) in respect of the purchase of a piece of land situated at 沁北工業集聚區, 焦克公路北側, 東鄰義莊三街耕地 (unofficial English translation as the North Side of Jiao Ke High Way, Yi Zhuang Three Street Cultivated Lands to the East, Qin Bei Industrial Zone) in Qinyang City, Henan Province, the PRC, with a site area of 268,160.82 sq. m. at a consideration of RMB38,220,000. It is proposed that our Group will construct a production base on such land with expected annual designed production capacity of 50,000 tonnes of aluminium profiles. During 1H10, the Group has also won the open tender for the land use right of a piece of land which is situated at 中國廣東省佛山市南莊鎮禪港路以西, 季北路以北 (unofficial English translation as west of Changang Road and north of Jibei Road, Nanchuang County, Foshan City, Guangdong, the PRC) with a site area of approximately 16,961 sq.m.. The purchase price for such piece of land is RMB50,380,000. The Group plans to establish a flagship showroom and administrative centre on the land.

Save as disclosed above, there was no other significant investment held, material acquisition and disposal of subsidiaries and associated company during 1H10.

PROSPECTS

We will continue to carry out our production capacity expansion plan in other parts of the PRC. With the three new production bases in Sichuan Chengdu, Jiangxi Yichun and Henan Qinyang commencing 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 2011. 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 annual designed production capacity of each of the three new bases to 100,000 tonnes and to extend our market coverage to South-West and South-East China. Together with the production capacity expansion in our Guangdong Sanshui plant, the total capacity of aluminium profiles is planned to be reaching 450,000 tonnes per annum by 2015. We expect the plants in Sichuan Chengdu and Jiangxi Yichun can commence trial production in the fourth quarter this year.

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 2010.

Share Option Scheme

The Company 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 2010, 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 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 2010.

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 2010.

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

As at 30 June 2010, 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 2010
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	6,139,000 ordinary Shares *(L)*	1.47%

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

Save as disclosed above, as at 30 June 2010, 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 2010, 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

During the six months ended 30 June 2010, our Company has fully complied with the applicable code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

Model code for securities transactions by Directors

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. After having made specific enquiry with all Directors, our Company has received confirmations from all Directors that they have complied with the required standards set out in the Model Code during the six months ended 30 June 2010.

The Company has also adopted procedures on terms no less exacting than the Model Code in respect of the securities transactions of the employees who are likely to be in possession of unpublished price-sensitive information.

Review by 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 namely, 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 management and external auditors of our Company and has reviewed the consolidated results of our Group for the six months ended 30 June 2010.

On behalf of the Board of
Xingfa Aluminium Holdings Limited
LUO Su
Chairman

Foshan, the PRC, 31 August 2010